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REPORT

OF THE

BRITISH ECONOMIC MISSION

NOMINATED BY HIS MAJESTY'S GOVERNMENT IN GREAT
BRITAIN AT THE REQUEST OF HIS MAJESTY'S GOVERNMENT
IN THE COMMONWEALTH OF AUSTRALIA.

7th JANUARY, 1929.

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REPORT OF THE BRITISH ECONOMIC MISSION.

To the Rt. Hon. S. M. Bruce, C.H., M.C., M.P.,

Prime Minister of the Commonwealth of Australia,
Canberra, F.C.T.

PART I.

INTRODUCTION.

1. At the time of the Imperial Conference held in the autumn of 1926, the Prime Minister of the Commonwealth of Australia raised the question of sending a mission of four independent business men from the United Kingdom to Australia. It was subsequently arranged, at the request of His Majesty's Government in the Commonwealth of Australia, that the personnel of such a mission should be nominated by His Majesty's Government in Great Britain and should proceed to Australia with the following terms of reference:—

Appointment
and terms of
reference.

“ To confer with the Commonwealth and State Governments, with the Development and Migration Commission and the leaders of industry and commerce in Australia on the development of Australian resources and on any other matters of mutual economic interest to Great Britain and the Commonwealth, which may tend to the promotion of trade between the two countries and the increase of settlement in Australia.”

2. We were nominated accordingly by His Majesty's Government in Great Britain; our selection was approved by the Commonwealth Government; we sailed from Marseilles on the 31st August, 1928, and landed at Fremantle on 25th September. Since that date we have visited every State of the Commonwealth and have travelled some 20,000 miles within Australia. We have seen areas of primary production and industrial centres and have held over a hundred conferences with Governments and their officials, with representative public bodies, with labour organizations, and with associations of producers and traders of every kind concerned both with primary and with secondary industries. In addition we have, as individuals, met and conferred with many of the leading citizens of the Commonwealth.

Preliminary
observations.

3. None of us had previously visited Australia, but we appreciated that Australia presents the only example in the world of one people possessing and controlling an island continent; that, owing to its size and geographical position, Australia covers a large range of climatic conditions; and that a great part of Australia is situated in what is known to geographers as the arid belt of the Southern Hemisphere. We knew that the development of Australia had proceeded from harbour settlements, through pastoral settlements on the fringe of the continent, and that later on mineral discoveries, particularly discoveries of gold, and the pursuit of agriculture had resulted in a large increase of population, followed by the development of secondary industries. We knew that these had been fostered by various means to meet a natural desire for independence of other countries in the matter of the provision of the necessities of life for the Australian people and for the provision of employment for a growing population. We knew that these developments had resulted in the establishment of a great Dominion of the British Empire, consisting of a people almost entirely of British descent and numbering over 6,000,000 persons, whose record of achievement as pioneers, administrators and soldiers, stands as high as any to be found in the history of the world. But it was evident that if we were to do justice to our task we must acquire a knowledge of Australia much more intimate than any general acquaintance with the outlines of her history can give.

4. Our itinerary has been lengthy and our investigations varied. The effect produced by them on our minds has been, in many cases, intensified by going over much similar ground and being confronted with similar problems in each State.

5. The opinions we express are based on the evidence which has come before us in various ways, at our numerous conferences, and in official reports and other literature which has been furnished to us. In the time at our disposal it is obvious

that we have been unable to conduct a detailed scrutiny into this evidence. Our report should be looked at as representing the judgment of four business men on the data placed before us after a brief but comprehensive survey of the conditions of the country. We realize that others have had greater experience in Australia than we can pretend to. We are indeed struck with the ability of the reports of Royal Commissions and other enquiring bodies in the past, and with the scope and thoroughness of the evidence furnished to them. We are aware that our own enquiries on specific subjects may have been less exhaustive than theirs, and that our knowledge is less profound than that of many able writers and thinkers on political and economic subjects in Australia ; but their knowledge, in so far as it is recorded, has been before us when we have formed our judgment.

6. Our terms of reference, it will be observed, lay emphasis on the problems of the promotion of trade and commerce between Great Britain and Australia and of the increase of settlement in Australia. It early became clear to us that these problems should be approached from the point of view of what is best for Australia herself in the belief that the increase of Australia's prosperity and productivity is an essential condition of increased trade with Great Britain. Given the maximum possible prosperity and wealth production in Australia, the ties between Australia and Great Britain are sufficiently close and the sentiments of common loyalty which bind the one to the other are sufficiently strong to secure that the maximum commercial intercourse will follow. Given the maximum possible power of absorbing population in Australia her determination to remain the most British community in the world is sufficiently strong to secure that it will be from Great Britain that the flow of immigration will come. But if the desired conditions of Australian prosperity and power to absorb population are not present, artificial means of promoting trade with and migration from Great Britain must fail. We have no shortsighted idea of attempting to induce Australia to carry on more trade or to take more migrants from Great Britain at the cost of lasting economic sacrifice on her part. We believe that any such effort would be bound to defeat itself. We have, therefore, to consider whether there are any modifications of Australia's financial and economic practice, which, if adopted, might, by enhancing her own prosperity, conduce to the realization of the objects envisaged by our terms of reference.

PART II.

MAIN PROBLEMS.

7. We turn first to Australian finance. Of this subject possibly the best general conspectus can be obtained by considering the extent of the combined Commonwealth and State budgets for a period of years. By this means it is possible to visualize the relation of Australia's borrowing to her ordinary year to year revenue and expenditure. We therefore give in the following tables the revenue, expenditure, surpluses and deficits of Australia during the last six years, shown as a total, and per head of population. From these it appears that during that period Australia balanced her budget to within 0.73 per cent., and that the average annual deficit per head of population was 4s.

CONSOLIDATED REVENUE AND EXPENDITURE THEREFROM.

COMMONWEALTH AND STATES COMBINED.

I. AMOUNT.

| Year ended 30th June. | Revenue £1,000,000. | Expenditure, £1,000,000. | Surplus, £1,000,000. | Deficit, £1,000,000. |
|---------------------------|------------------------|-----------------------------|-------------------------|-------------------------|
| 1921-22 | 143.0 | 145.6 | .. | 2.6 |
| 1922-23 | 145.7 | 144.8 | .9 | .. |
| 1923-24 | 151.8 | 154.5 | .. | 2.7 |
| 1924-25 | 160.3 | 160.2 | .1 | .. |
| 1925-26 | 166.1 | 170.8 | .. | 4.7 |
| 1926-27 | 180.6 | 178.6 | 2.0 | .. |
| Total for six years | 947.5 | 954.5 | .. | 7.0 |

II. PER HEAD OF POPULATION.

| Year ended 30th June. | Revenue. | Expenditure. | Surplus. | Deficit. |
|-----------------------------|----------|--------------|----------|----------|
| | £ s. d. | £ s. d. | s. d. | s. d. |
| 1921-22 | 25 19 3 | 26 8 7 | .. | 9 4 |
| 1922-23 | 25 17 5 | 25 14 0 | 3 5 | .. |
| 1923-24 | 26 7 11 | 26 17 4 | .. | 9 5 |
| 1924-25 | 27 5 9 | 27 5 7 | 0 2 | .. |
| 1925-26 | 27 14 4 | 28 9 11 | .. | 15 7 |
| 1926-27 | 29 11 0 | 29 4 7 | 6 5 | .. |
| Average for six years | 27 3 5 | 27 7 5 | .. | 4 0 |

These figures are satisfactory enough, but we cannot feel the same degree of satisfaction in regard to Australia's public indebtedness, though there is no doubt of her ample power to discharge her obligations.

8. The public debt of the Commonwealth and States for the six years to 1928 is shown hereunder:—

AUSTRALIAN PUBLIC DEBT.

| 30th June. | Commonwealth, £1,000,000. | Total Debt on Account of— | | Combined Debt per Head of Population. |
|--------------|------------------------------|---------------------------|---|--|
| | | States, £1,000,000. | Commonwealth and States combined, £1,000,000. | |
| 1922 | 364.8 | 519.6 | 884.4 | £ 159 |
| 1923 | 358.5 | 547.0 | 905.5 | 159 |
| 1924 | 362.0 | 588.3 | 950.3 | 164 |
| 1925 | 362.1 | 601.0 | 963.1 | 162 |
| 1926 | 374.9 | 639.1 | 1,014.0 | 167 |
| 1927 | 386.6 | 677.1 | 1,063.7 | 169 |
| 1928 | 372.8 | 723.0 | 1,095.8 | 174 |

9. For the redemption of the debt of both Commonwealth and States an annual payment on a compound interest basis is being made to a sinking fund, which will redeem the whole of the existing debt within the next 58 years, and will provide for the liquidation of any new loans over periods ranging from 30 to 53 years from the dates of flotation.*

10. The amount of the combined debts of the Commonwealth and of the States, and the frequent recourse to the loan market which has taken place in the years since the war has to some extent damaged Australian credit, but in our judgment the mere magnitude of the debt is not in itself evidence of an unwise borrowing policy.

11. In a new country, still largely undeveloped, where the recognized scope of the activities of Governments is as wide as it is in Australia, it may be quite proper that large sums of capital for development should be raised by means of public loans: but it is essential that the development schemes, financed by means of them, should be self-supporting within a reasonable measure of time, which we recognize may be longer in the case of a Government than in the case of a private undertaking. By this we mean that within such measure of time they should, either directly, or indirectly through the increased taxable capacity of the community and the enhanced value and price of Government-owned land attributable to them, provide at least their own working costs, interest on the loan capital invested in them, and a sinking fund sufficient to provide for its repayment when it falls due. To the extent to which they fail to do so they involve the State in loss, and to the extent of that loss inflation takes place, the dead weight burden of debt on the State is increased and the rest of the community are, in effect, paying to the persons served by them a subsidy which will be reflected in a general increase in the costs of living and production. We are led to the conclusion that the Australian community is suffering heavily from troubles of this kind.

12. According to figures with which the Treasurer of the Commonwealth has been good enough to furnish us, the respective positions of the Commonwealth and of the States as regards their indebtedness at the 30th June, 1922, and at the 30th June, 1928, were as shown in the following tables:—

| | In Australia | Overseas. | Total. | Per Head of Population. |
|-------------------------|--------------|-------------|---------------|-------------------------|
| 30th June, 1922— | £ | £ | £ | £ |
| Commonwealth Debt | 250,000,000 | 115,000,000 | 365,000,000* | 66 |
| States' Debt | 222,000,000 | 297,000,000 | 519,000,000 | 93 |
| Total | 472,000,000 | 412,000,000 | 884,000,000 | 159 |
| 30th June, 1928— | | | | |
| Commonwealth Debt | 219,000,000 | 153,000,000 | 372,000,000* | 59 |
| States' Debt | 332,000,000 | 391,000,000 | 723,000,000 | 115 |
| Total | 551,000,000 | 544,000,000 | 1,095,000,000 | 174 |

* Exclusive of loans raised for the States.

13. Of the total Commonwealth debt at the 30th June, 1928, £293,000,000 was deadweight War Debt and £79,000,000 was for works such as Post Office works, Commonwealth Railways and War Service Homes. The corresponding figures for 1922 were £333,000,000 and £32,000,000, respectively, so that during the six years from 1922 to 1928 deadweight War Debt was reduced by £40,000,000 and Works Debt was increased by £47,000,000. It is, of course, only the latter that the community can expect to be represented by self-supporting undertakings providing their own interest or by assets giving a service equivalent to the corresponding interest paid in respect of them out of the proceeds of taxation. The States have no War Debt, for though it may be true that their post-war resettlement schemes were a direct consequence of the War, they were, at least in their inception, intended to be self-supporting. The total debt of the States in 1922 was approximately £519,000,000, and has, therefore, increased by some £204,000,000 in the six years from 1922 to 1928. The position as regards the interest payable, the amount thereof available from revenue-producing

* The arrangements at present existing for the redemption of Australia's debt are shown in an Appendix to this report.

assets and the balance which had to be covered from taxation, in respect of the Commonwealth and the States' debt respectively, for the years 1921-22 and 1926-27 (the latest year for which figures are available), is set out in tabular form hereunder :—

| — | | | | Interest Payable. | Amount Available from Revenue-producing Assets. | Balance Covered by Taxation. |
|--------------|----|----|----|-------------------|---|------------------------------|
| | | | | £ | £ | £ |
| 1921-22— | | | | | | |
| Commonwealth | .. | .. | .. | 18,976,803 | 876,202 | 18,100,601 |
| States | .. | .. | .. | 20,807,026 | 15,038,350 | 5,768,676 |
| Total | | | | 39,783,829 | 15,914,552 | 23,869,277 |
| 1926-27— | | | | | | |
| Commonwealth | .. | .. | .. | 20,749,113 | 2,768,467 | 17,980,646 |
| States | .. | .. | .. | 31,373,271 | 21,661,522 | 9,711,749 |
| Total | | | | 52,122,384 | 24,429,989 | 27,692,395 |

14. It will be seen that while the total interest charge in respect of the Commonwealth debt increased by about £1,800,000 during the five years, the amount of it which had to be provided by taxation, notwithstanding the change referred to above in the relation between deadweight War Debt and Works Debt, was reduced only by about £120,000.

15. The position is more serious in regard to the combined debt of the States. The proportion of the interest payable which was available from revenue-producing assets fell and, correspondingly, the proportion covered by taxation rose by 3.2 per cent during the five years. The amount covered by taxation rose by 68 per cent. (from £5,786,676 to £9,711,749), while the total interest charge rose by a little over 50 per cent. (from £20,807,026 to £31,373,271). The inference, which is confirmed by such observations as we have been able to make, is that this position results from heavy expenditure of loan capital by the States on developmental undertakings which have not proved to be self-supporting and have imposed a heavy burden on the general community and consequently on the cost of living and production.

16. It is at present a matter of great difficulty to ascertain the exact financial position of each object or undertaking on which loan moneys have been expended in Australia, though we are very glad to note that the Commonwealth Budget papers are now being prepared in a form which goes far to remove the difficulty so far as the Commonwealth is concerned. The same is now true in conspicuous degree of New South Wales, and of South Australia as regards its State Railways, concerning which an admirably clear statement by the Railway Commissioner shows, for the year ended 30th June, 1928, a deficit on revenue account of just under £1,000,000 and an accumulated deficit of just over £8,000,000. We would respectfully suggest that the other States would do well to follow these examples, so that the public may be better able to understand clearly how its funds are being spent and with what result in each direction.

17. Certain other examples of heavy loan expenditure seem to us to be worth citing.

18. Capital expenditure on the Murrumbidgee Irrigation Scheme in New South Wales to the amount of over £9,000,000 had been incurred to the 30th June, 1927; on group settlement in Western Australia to the amount of nearly £5,600,000 to the 30th June, 1928; and on the Murray River Scheme, including the Hume Reservoir, to the amount of over £6,000,000 to 30th June, 1928, while it is estimated that a further £4,000,000 will be required to complete the Hume Reservoir. These figures of capital expenditure are exclusive in all cases of the amounts advanced to persons served by the schemes referred to.

On Closer Settlement in all States over £12,200,000 had been advanced as at the 30th June, 1927, of which nearly £8,600,000 was then outstanding.

On Soldier Settlement, of which, however, it is fair to remember that a main motive was the discharge of a debt of honour to the returned soldiers, over £45,500,000 had been advanced, of which just over £36,000,000 was then outstanding.

19. We are not in a position to estimate the extent to which these advances and these capital expenditures, with the interest thereon, may be ultimately recoverable. But when, for instance, we are told that out of a total expenditure, including advances to settlers, of nearly £8,000,000 on group settlement in Western Australia, a large proportion may have to be written off as lost; or when we are told that of the irrigable land made available by the Murrumbidgee Scheme only about one-third is being used for its intended purpose, and that only a fraction of the interest allocable to that one-third is being received, we cannot avoid the apprehension that a very heavy and permanent load is being laid upon the community.

Causes of
unprofitable
expenditure.

20. Among the causes which have led to unprofitable expenditure we are led by much evidence that we have received to believe that an important element is the undertaking of schemes, such as railway schemes, under the pressure of sectional interests, without due regard to their financial and economic justification, that is to say, without due regard to the interests of the community as a whole.

21. Further, in some cases where Governments have undertaken schemes of development with the best intentions and motives they have, we believe, undertaken them without adequate preliminary investigation and without sufficient use and co-ordination of the expert scientific and technical knowledge which might have been made available to them from the resources of their own departments. We have, for instance, come across cases where an area has been laid out for an irrigation scheme without a preliminary soil survey to make sure of the suitability of the ground for the purposes for which the irrigation has been provided. Again, where schemes have been undertaken which should have involved the co-operation of more than one State, as for example, the scheme involving the use of the waters of the Murray River, they have been started without such co-operation and without a combined survey of the probable markets for the produce which it was contemplated would result from the use of the waters. The authorities concerned, namely the Governments of New South Wales, Victoria, South Australia and the Commonwealth, are indeed now striving in concert with one another to rectify the past; but their difficulties, which are undoubtedly great, would have been less if there had been combined investigation by them all of the possibilities of the scheme and of its probable financial results, in the light of a co-ordination of all the expert and scientific knowledge available to them, before any considerable expenditure was incurred by any of them.

The Murray
River
Scheme.

22. The Murray River Scheme is indeed a good illustration of the causes which have led to much of what we feel to be unsatisfactory in the present position of Australia as regards her public debt. As we understand it, there is at present no intention of proceeding further with the original plan for the construction of locks; and the weirs which have been made are to be used for irrigation purposes, the existing locks serving to allow local river transport to pass between them.

23. It has, we understand, been decided to complete the Hume Dam at an estimated cost of £4,000,000 to its full height as recommended by the engineering advisers of the Governments concerned; and meanwhile the Murray River Advisory Committee has been entrusted with the by no means easy task of advising on the question to what purposes the new areas of land, which will be made irrigable by means of the Hume Reservoir, can be profitably put, having regard to the difficulty of disposing of the produce from the irrigation areas already existing, and on the extent to which any profits which may fairly be anticipated from the new irrigable areas will outweigh the loss which must be occasioned by the submerging of valuable land already in use above the site of the Hume Reservoir, when the dam is completed. We cannot avoid the conclusion that much loss, now inevitable, would have been avoided if the whole series of problems involved in this scheme had been more exhaustively investigated at the outset. Even now it would seem worth while to consider whether the risk of loss involved in suspending the completion of the Hume Reservoir until the investigation now proceeding is finished may not be less than the risk of loss which would occur if the Reservoir should be completed and it should be found impossible to recommend any use to which the waters conserved by it could in present circumstances be profitably put. It might, for instance, be found to be wise, once the foundations have been installed of a character capable of carrying the dam to the full height ultimately contemplated, to finish off the dam temporarily to a lesser height, and thus to save considerable sums of money while providing for the conservation of a water supply sufficient for all purposes which can at present be foreseen.

24. A further general observation suggests itself. Loan moneys raised overseas can only come to Australia in the form of goods. These goods are subject to the Customs duties provided for under the Commonwealth Tariff on importation into Australia, and are in this way taxed to an extent estimated at from 15 to 20 per cent. of their value. The result is that this proportion of moneys borrowed abroad for capital purposes comes to the Commonwealth as revenue and is spent accordingly. This diversion of capital funds to revenue is obviously bad finance.

Diversion of
loan moneys
to revenue.

25. We conclude then that while of course the Australian Governments must continue to borrow for the completion of schemes on which they are already embarked (excepting such, if there be any, as on a careful review of them do not appear likely to yield a fair return when completed on the fresh capital needed to complete them), they should proceed very cautiously in the matter of the initiation of new schemes involving the expenditure of borrowed money; and should submit them before initiation to the most rigorous scrutiny from the point of view of their prospects of being self-supporting at a reasonably early stage. We have no doubt that the resources of Australia are amply sufficient to support a prudent borrowing policy of this character, the adoption of which would in itself do much to strengthen Australia's credit.

Suggested
borrowing
policy.

26. Generally, we are so much impressed with the financial and economic risks surrounding Government borrowing for purposes of development that we are moved to suggest that Governments should restrict the sphere of their activities in this direction and in that of business undertakings and should leave the field more widely open than in the past to private enterprise, possibly adopting the method indicated below in paragraph 28.

Restriction
of objects of
Government
borrowing.

27. The sphere of Government activity in Australia must, in any case, be large, and things have gone too far for us to discuss to-day such matters as the construction of railways or works for the conservation and distribution of water by private enterprise. But a very wide field remains open which Australian Governments have, to a great extent, entered, and here we think that these Governments would be wise to go no further. Within this field we think that private enterprise, with no public purse to fall back upon in the event of failure, exposed to no political pressure to embark upon unprofitable courses, and stimulated by the hope to gain to the maximum of economy and efficiency, would produce results more beneficial to Australia as a whole than the present system is calculated to yield. Progress might indeed be slower than in the case of successful Government action, but it would be more sure, and the risks of loss and failure which entail not progress but regression would be greatly diminished.

Private
enterprise.

28. A middle course between purely governmental and purely private enterprise might be found in appropriate cases if the capital for development were found by companies formed for the purpose, to the extent of not less than one-half in the shape of ordinary shares issued for cash, and the remainder in the shape of preference shares or debentures, the interest on which might be guaranteed by the Government for a limited number of years. The risks of loss would then fall primarily on the holders of the ordinary shares, while all profits realized after payment of preference or debenture interest would accrue to them.

Possibility of
combined
Government
and private
enterprise.

29. We realize that a curtailment of loan expenditure by the Australian Governments must involve the inevitable concomitants of deflation. Deflation nevertheless remains the course of wisdom if it be true, as we think it is, that free expenditure on schemes very doubtfully remunerative has contributed to produce an inflated position. The temporary apparent prosperity which such a position creates cannot in any case be lasting. If it is sought to prolong it, it brings with it its own inevitable nemesis.

Consequences
of curtailed
loan
expenditure.

30. Our final conclusion in regard to Australia's finance is that her creditors have no cause whatever for present anxiety, because she is still borrowing well within her actual and potential resources, but we are of opinion that she has not in past years always borrowed wisely, and that she has pledged to too great an extent those future resources, and mortgaged too deeply that future prosperity upon which she can reasonably reckon, thus throwing the burden of her borrowings upon future generations who will have their own needs to meet.

Conclusion as
to Australian
finance.

31. We venture to quote an opinion expressed by two eminent citizens in a recent report to the Government of South Australia :—

“ We have the greatest possible confidence in the resources of Australia. As soon as statesmen and people realize that, while we owe money abroad and require to sell our products abroad, our standard of Government and private expenditure must be in relation to our position in the world's affairs, then will our real prosperity be established. No Act of Parliament can alter this basic truth. That a new country is justified in borrowing money for reproductive works has always been recognized, but results must be achieved and production must advance in proportion to the public debt incurred.”

The Financial
Agreement
and the Loan
Council.

32. A less ambitious borrowing policy such as we have outlined above can be contemplated with confidence. In the first place we cordially welcome the unanimous acceptance by the States of the Financial Agreement under which the Loan Council is established and the overwhelming majority obtained at the recent referendum for the necessary amendment of the Constitution to enable the Commonwealth Government to validate the Agreement. It now remains only for the Commonwealth Parliament to authorize the conclusion of the Agreement, and our knowledge of the London money market enables us to say with confidence that the sooner that final step is taken the better it will be for Australian credit. The conclusion of the Agreement will mark the definite end of a condition of affairs when seven different Australian Governments, each acting independently of the other, entered the loan market with no regard for, and indeed, to the prejudice of, each other's interests. Collective borrowing by the Commonwealth on its own and on the States' behalf will mean cheaper borrowing than would otherwise have been possible. The provision of a regular sinking fund both for existing and for future loans will be heartily welcomed in London, and if the objects of the loans are such as we have attempted generally to indicate above we have no doubt of their favorable reception. It is true that the Loan Council will not be empowered to deal with the merits of the loan programme of the Commonwealth and of the individual States, but only with the total amount that can be borrowed in any year. Nevertheless we feel certain that the discussions which will take place in the Council will conduce to prudence in the objects of public borrowings as well as to moderation in their amounts, and that mutual consultation in this, as in many other spheres, can be productive only of good.

Consultation
with Banks.

33. When loans have to be placed it is in our judgment essential that the Banks and other financial authorities, and particularly in the case of loans placed in London the Bank of England, should be consulted, sufficiently long in advance, as to the time at which and the terms on which they should be raised, and that the objects of each loan should be fully explained in the prospectus of it; but we do not apprehend that there can be any obstacle to compliance with these conditions.

The
Development
and Migration
Commission.

34. In the second place we welcome the creation of the Development and Migration Commission and of the Council for Scientific and Industrial Research. So far as borrowing by the States is concerned, the Development and Migration Commission has a definite *locus standi* only when it is proposed that a loan should be raised under what is known as the £34,000,000 Agreement, to which we shall have occasion to refer again hereafter, because the Development and Migration Commission is a body created by and responsible to the Commonwealth Government, and it is only when State loans are raised under the £34,000,000 Agreement that the Commonwealth Government is directly concerned in them. Nevertheless there is, naturally and properly, a strong inducement afforded to State Governments wishing to borrow for schemes of development to bring their schemes within the scope of the Agreement because of the material assistance given under it by the British and Commonwealth Governments; and the machinery provided through the Development and Migration Commission for the preliminary investigation of such schemes is well calculated to ensure that they shall be of the character which we have indicated above as being, in our opinion, necessary. The Development and Migration Commission is in a position not only to bring its own critical faculty to bear on the projects laid before it and to give its valuable services for their perfection, but also, working as it does through Committees established in each State, to secure that collection and co-ordination of available knowledge before schemes are undertaken which, as we have said, has too often been lacking in the past. The Development and Migration Commission is, in short, the nucleus of combined and co-ordinated effort for prudent development; and for the work which it has done

upon the subjects especially referred to it by the Commonwealth Government, as well as for what has been done in consequence, we have nothing but praise to offer. We hope that the example set by it in the sphere in which the Commonwealth is directly interested will be increasingly followed in the field of individual State action.

35. The Commission, however, owes its origin to the interest taken by both the British and the Commonwealth Governments in the problem of migration from Great Britain to Australia. This problem of migration requires special attention at our hands. We appreciate the aim of the British Government and we applaud the efforts which are being made to further it through divers agencies, particularly in regard to the migration to Australia of children, young people, and women for domestic employment. We are satisfied that Australia, enthusiastically devoted as she is to the British connection and boasting as she rightly does of a population 98 per cent. British, desires nothing more than such migration; but we are faced with the fact that, while Australia's door remains wide open to any British subject who cares to pass through it, the total numbers of assisted migrants have in recent years shown a sensible decline.

The figures are as follows :—

ASSISTED MIGRANTS FROM BRITISH ISLES.

| Year | Requisitioned. | Nominated. | Total. |
|--------------------------|----------------|------------|--------|
| 1923 | 15,496 | 11,015 | 26,511 |
| 1924 | 12,611 | 12,425 | 25,036 |
| 1925 | 10,131 | 14,696 | 24,827 |
| 1926 | 7,884 | 23,376 | 31,260 |
| 1927 | 7,309 | 22,816 | 30,125 |
| 1928 (estimated) | 6,145 | 16,154 | 22,299 |

36. This diminution is variously accounted for. The fiscal and financial system and the industrial conditions of Australia, to which we shall have occasion to refer later, and the high level of prices resulting from them, may not be conducive to migration. Droughts in recent years affecting the primary production, and consequently the prosperity, of Australia may have contributed to increase the difficulty. Some recent diminution in the previously contemplated rate of expenditure of borrowed money by the States would seem to have brought with it the inevitable consequences of deflation, necessary as such deflation undoubtedly is, in the shape of unemployment in the large cities; and, though the Australian statistics in this matter are not compiled upon the basis of wholly satisfactory data, so that the latest figure given to us of unemployment, viz., 11.4 per cent. of the working population, may not mean the same thing as a similar figure would mean in Great Britain, there is no doubt that unemployment in Australia has of late been upon the increase. The circumstances of the time are thus not favorable to migration from overseas, and when, as has recently been the case in Western Australia, there appear to be good openings for new settlers, these openings are rapidly filled by persons coming from the Eastern States.

37. There are, therefore, great difficulties in the way of the successful operation of the £34,000,000 Agreement. An agreement which starts by laying on the table, if we may use the expression, a very large sum of loan money and contemplates that the manner in which it shall be spent by the States shall be considered afterwards is in any case open to serious criticism from the point of view of its tendency to encourage the proposal of schemes not fully matured, particularly when the operation of the agreement is confined within a limited period of time. The Development and Migration Commission is using every effort to prevent this danger, and we are not prepared to say that the new schemes for the approval of which it is directly responsible, as distinguished from schemes which may be described as legacies from the period prior to the Commission's appointment, are likely to be unremunerative. But in present circumstances the field within which schemes such as the Commission is likely to be able to approve can be put forward is comparatively narrow. It is confined, practically entirely, to the field of more intensive primary production. It does not include large scale cattle ranching or the establishment of further extensive sheep stations, which in any case do not appear to be capable of much expansion, and covers wool production only so far as that can be combined with agriculture and the raising of fat lambs for the meat market. Now almost the only commodities the production

of which seems likely to be enhanced by schemes approved by the Development and Migration Commission, and which are to-day being exported and sold at the world's prices without the direct assistance of protective customs duties or some form of bounty, to say nothing of such forms of indirect assistance as railway carriage paid for in greater or lesser degree out of the taxation of the people generally, are wheat and the products of the sheep in the form of wool, meat and skins. We are therefore, we think, justified in describing the field as comparatively narrow.

The difficulty of requiring the States to accept specific quotas of assisted migrants.

38. From the point of view of migration a special difficulty presents itself. Under the £34,000,000 Agreement each State undertaking an approved scheme binds itself to accept a certain number of assisted migrants proportionate to the capital expenditure incurred in the scheme. This obligation to take a specific quota of migrants in respect of each approved scheme is apt to cause embarrassment to the States, though we have no doubt at all of their complete desire to fulfil it. We have already observed that the opportunities for migration offered by recent developments in Western Australia have been taken advantage of by persons arriving from the eastern States, whose settlement in Western Australia the Government of that State is of course powerless to prevent, even if it wished to do so. Similar effects would be likely to follow from similar causes in the other mainly primary producing States. Moreover it has to be borne in mind that the immigration which follows from the successful extension of primary production is caused in part directly and in part, perhaps in the main, indirectly. The immigration directly caused comes to the locality where the extension of primary production is taking place. It sets up an increased demand for the products of secondary industries, and the immigration indirectly caused results from this demand. The secondary industries are mainly established in the great manufacturing States of New South Wales and Victoria, so that it is to be anticipated that the successful development of primary industries in the other States will, so far as its indirect results are concerned, be reflected in increased immigration into New South Wales and Victoria. It follows that the primary producing States are likely to have difficulty in absorbing their prescribed quotas of migrants, though the obligation to do so will remain upon them, while on the other hand the manufacturing States being able to point to the increased immigration within their borders will be able to satisfy their obligations in the matter without difficulty, really as the result of what has been done in other States.

Possible amendment of the Agreement.

39. These considerations lead us to suggest that it might be well if it were possible to secure the concurrence of all the Governments concerned, that is to say, the British Government, the Commonwealth Government and the State Governments, in such an amendment of the Agreement as would provide that the funds made available under it might be used not only for schemes involving the acceptance of specific numbers of migrants by the individual States, but also for work calculated to promote migration into Australia generally.

Intensive as against extensive development.

40. This question raises a subject which appears to us to be of the greatest importance and to go far beyond the implications of the £34,000,000 Agreement itself. We have been much struck by what we have seen and heard of the comparatively small degree to which intensive use is made of the land already in occupation in Australia. Schemes are being projected for extensive development by pushing railway and road construction at heavy capital cost into territory as yet unsettled, while it would seem that more intensive use of land already settled or partially settled might, at far less cost, be productive of a greater increase in population and in wealth production than the extensive schemes are likely to yield.

The Council for Scientific and Industrial Research and the increase of technical knowledge.

41. We enter here upon the wide field of scientific research and of the increase of technical knowledge as applied to wealth production. We have already said that we cordially welcome the establishment of the Council for Scientific and Industrial Research in this sphere. Like the Development and Migration Commission in its sphere, the Council for Scientific and Industrial Research with its able and energetic personnel is capable of being a nucleus for the combination and co-ordination of the scientific and technical knowledge already available in many quarters in the different States of Australia and a potent force for the increase of the sum of that knowledge through the work of its several scientific sections, each under a highly qualified head and each acting in harmony with all other existing institutions having the same object, such as the State Departments of Agriculture, the Universities and the admirable Waite Institute at Adelaide. The sum of that knowledge and of the knowledge gained

in other parts of the world through other institutions, with which it will be the duty of the Council for Scientific and Industrial Research to keep in touch, can be brought to bear on the practical problems of Australia's development.

42. The possible opportunities for the results of scientific study in many fields, such as those of agriculture and dairying, with a view to the increase of productivity and the diminution of costs, are incapable of measurement; and we feel that the work of the Development and Migration Commission and of the Council for Scientific and Industrial Research, working, as we hope that these bodies will work, to one end, in ever closer co-operation with one another and with all the other institutions in Australia with which they have connections, will lead to that more intensive use of the already partially developed resources of Australia which we believe to be among Australia's principal needs to-day. From that, rather than from specific schemes for new extensive development, we believe that a natural stream of migration from Great Britain to Australia will flow, having its source in the increasing productivity and consequent absorptive power of the Dominion. We would therefore suggest as a first step towards that end that, without prejudice to any specific schemes which the Development and Migration Commission may be able to recommend under the £34,000,000 Agreement as it now stands, the scope of that Agreement should be enlarged so as to permit of the funds made available under it being used in other ways and, in particular, to assist the work of scientific research through subsidies to appropriate institutions, by facilitating large scale experiments and the like, without attaching to the expenditure of moneys for these purposes the condition that any specific proportionate number of migrants must be received in Australia.

43. We also consider that the present time limit to the Agreement might be extended if in practice it should prove impossible within that limit to decide upon proper uses to which the whole of the funds made available under the Agreement should be put, and that, assuming that the Agreement as amended works satisfactorily, the British Government might consider the provision of further sums after the present provision is exhausted. Given that the British Government is disposed to continue to spend money to promote migration, and given that the prudent expenditure of such money is properly safeguarded, we are unable to suggest a better use which could be made of it.

44. But all measures designed for the increase of Australia's wealth production and power of absorbing new population tend to be defeated if there are strong forces within her which operate so to raise her costs of production that she cannot sell her products in the markets of the world, and is restricted within the limitations of her own home market. Here we approach the most vexed, and the most important of all Australian questions, that of the combined effects of the protective Customs Tariff and of the legislative enactments, both of the Commonwealth and of the States, for the fixing of wages and conditions of labour, which we will call, for brevity, the Arbitration Acts.

45. We could not fail to be impressed, throughout our travels in Australia, with the fact of which we were continually reminded, that, notwithstanding the magnitude of the interest on her external debt and of her imports for which payment can only be made in goods or services or, temporarily, by fresh borrowing, Australia exports only an almost negligible quantity of the products of manufacture, unless we include therein minerals such as lead, silver and zinc; while, broadly speaking, the only primary products which she exports in important quantities and which are not directly assisted by tariffs or bounties, though they may be assisted indirectly by Government expenditure from taxation on roads, railways, water schemes and the like, are wool, hides and skins, meat and tallow, wheat and timber. Of these, wool and wheat are by far the most important, and it has often, though somewhat loosely, been said to us that the primary industries concerned with these products are the only industries in Australia which stand on their own feet and sell their goods at the world's price; or even, still more loosely and with a change of metaphor, that all Australia is riding on the sheep's back. Without committing ourselves to full acquiescence with these broad expressions of opinion, we may say that we have been strongly disposed to the view that the combined operation of the tariff and of the Arbitration Acts has raised costs to a level which has laid an excessive and possibly even a dangerous load upon the unsheltered primary industries, which, having to sell in the world's markets, cannot pass on the burden to other sections of the Australian community, and, consequently, as between the various States, upon those, notably Western Australia, South Australia and Tasmania, which are poor in manufactures and are principally

concerned with primary production. These States, and Tasmania probably most of all, are further handicapped by the high costs of freight in interstate trade which result from the operation of the Navigation Acts along with the other causes which we have mentioned.*

The "vicious circle".

46. These causes collectively have at least contributed in large measure to a state of things in which manufactured articles generally, and such commodities as sugar, cotton, dried and canned fruits, wine and butter are either not being exported at all or are only being made exportable by means of a subsidy in one form or another from the public. We have felt much force in the oft-repeated complaint that successive increases in the tariff which affect prices and the cost of living, following upon, or being followed by, successive advances in the cost of labour as the result of decisions under the Arbitration Acts have involved Australia in a vicious circle of ever ascending costs and prices, and that this condition of affairs is crippling Australia's progress and her power of supporting increased population. There lies no task before the Australian people more urgent than that of in some way breaking the vicious circle and of bringing down costs of production, as is being done in the other industrial countries of the world, without lowering the standard of living of the workers as measured not by money but by real wages, which are the reward of labour in the form of goods and services.

Observations of the Tariff Board.

47. Our views have merely been strengthened by our study of the reports of the Commonwealth Tariff Board, who, we observe, in their report for the year 1925-26, say that they are—

"strongly of the opinion that the industrial unions of the Commonwealth should be induced to realize the critical position into which the Commonwealth is drifting and the absolute necessity for preventing the wages gap from becoming still wider between the United Kingdom, the Continent of Europe and the Commonwealth, otherwise, the Tariff Board, placed as it is in the position to take a comprehensive and intimate view of all Australian industry, can see nothing but economic disaster ahead, and that at no very distant date"

in their report for the year 1926-27 that—

"... in some industries it is apparent that protection is failing to protect. In so far as recent increases in Customs Revenue have been due to the collection of higher duties imposed with the object of discouraging the importation of the appliances or commodities on which such duties were imposed, the increased amount collected represented, in the case of goods used in manufacture, an addition to the cost of production, which indirectly increased the cost of living; and to the extent that any such increased revenue was due to the imposition of duty on commodities imported in the form in which they are consumed it represented a direct increase in the cost of living. Such additional revenue is undesirable and the sums involved would be far better in the hands of the indirect taxpayers—whether State Government activities or undertakings conducted by private enterprise—or the general public,"

and in their report for the year 1927-28 that—

"... One of the most serious difficulties which Australia has to face at present is the high cost of production of goods in the Commonwealth. For many years the cost of production generally has been increasing, and unfortunately these increases appear to have been maintained.

"If Australia were entirely isolated from overseas sources of supply and independent of them, and if it were also independent of overseas markets for the disposal of some of its products, high cost of production would matter less to its people. Seeing, however, that Australia is not isolated and is dependent to a large degree upon overseas markets, the seriousness of the position lies in the fact that the cost of production in competing countries has declined while costs in Australia generally have risen—thus increasing the already wide margin of difference between the costs in overseas countries and those in Australia."

* We are aware that the disabilities under which these States suffer are recognized by the Commonwealth Government and that substantial subsidies are paid by the Commonwealth to Tasmania and Western Australia, while the question of granting a similar subsidy to South Australia is under consideration. These subsidies, however, can only be regarded as palliatives of a system with which here is something amiss.

48. The Customs duties are not all definitely fixed by statute. They are elastic in that they may be increased to prevent dumping, and within the limited range of deferred duties may be imposed suddenly by administrative action. We do not say that the powers thus entrusted to the Government have been capriciously used, but there is a danger that in imprudent hands they might be so used; and if they were trade would be seriously hampered. What virtually amount to administrative additions to Customs duties through special preferences given by authorities undertaking public works to the products first of their own and next of other States as against imported products, even though the latter when charged with the duties prescribed by the tariff may still be cheaper, are gravely to be deprecated. Action in this direction is in effect an arrogation of powers which by the constitution are entrusted to the Legislature and Government of the Commonwealth.

Alteration of duties by administrative action.

49. We realize that the objects of a protective tariff are not purely economic, and that a protective policy may be adopted, in part at least, on other grounds. A young nation may feel that it is due to herself to have a proper share of that diversity of occupations and industries which characterizes the older peoples of the world, and that her national life would be one-sided and even starved without it; and she may feel that from the point of view of the dangers to which she may be exposed in case of war she cannot afford the risk of being deprived of essential commodities by interruption of overseas communications, or, if the war be one in which she is herself engaged, of being without the industries indispensable for the production of armaments. She may be prepared to pay for these objects through economic sacrifice; but if this be necessary it is important that she should make the sacrifice with her eyes open and be ready to count the cost.

Objects of a protective tariff.

50. It is with the economic aspect of the protective tariff, therefore, that we are mainly concerned, and not with any abstract controversy on the respective merits of protection as such and of the rival system of free trade. We recognize that protection is the settled policy of Australia; that it would be idle to suggest its abolition even if we thought that such a course would be expedient; that we must deal with Australia as she is and realize that changes by way of reduction of the tariff may lead to loss of capital and the discharge of workers from industries already built up under the tariff shelter; and that while the undoubted effect of protection in the diversion of production from its natural course must have resulted in some cost, it is not certain that if the natural course of production had been continued it would have maintained the present population without some reduction in income per head, due to pressure upon inferior or less accessible land and to lower prices for a greater volume of exports.

Its economic aspect.

51. But in the carrying out in detail of a policy of protection, a task of immense difficulty, there is much room for human fallibility. Protection, as its very name implies, is designed for the weak, and the weakness may be that of infancy, that of temporary ailment, or that of inefficiency. It may well be expedient to give artificial assistance from the public to a promising infant industry, though, since its output must necessarily in the early stages be small, such assistance is in our judgment better given by way of bounty, the cost of which can be exactly measured, than by way of a protective customs duty which will raise, to an extent difficult to compute, the cost to the community of the whole of its supplies of the commodity which the infant industry is designed but is not yet able sufficiently to produce. But it is to be observed that infant industries are apt to take a long time to grow up and to be ready to dispense with their swaddling clothes, and the process of reaching maturity tends to be further delayed when the costs of the products of other industries required by the infant industry are increased by measures similar to those which have been adopted in its own case. It behoves the State, therefore, to keep a very careful watch upon the whole range of protected industries, and to be sure that protection or bounties are not continued so long or given so freely that their cost outweighs the benefit to be derived by the community from the establishment of the industries in its midst.

Difficulty of applying a policy of protection.

52. An instance of temporary ailment would be afforded if an established industry were assailed by a campaign of dumping from overseas. In such a case it would be reasonable to afford protection while the trouble lasted, but the protection might well be reconsidered when the cause for it had been removed.

53. The protection of the inefficient is something which, we imagine, no one would be prepared to defend, but it is in practice not easy to avoid it; for the case for a measure of protection for an industry is apt to be based on what is needed to keep

the weaker of those engaged in it alive. And protection itself tends to have, though it does not always have in fact, a debilitating influence and to promote habits of dependence upon Government assistance rather than of reliance upon individual energy and effort; while Governments, always exposed to interested political pressure, are prone to give that assistance rather than to see industries disappear, their capital lost and the workers engaged in them forced to seek other employment. Thus protection tends to grow and to cover an ever wider field, its own growth being productive of the very conditions which lead to its further growth. Something of this kind has, we think, taken place in Australia. We believe that the policy of protection has, in some respects, been unscientifically carried out; that it has been extended to cover some interests at least which do not deserve it; that the total burden of the Tariff has probably reached the economic limits, and that an increase in this burden might threaten the standard of living.

Efficiency as
a condition of
protection.

54. The case for protection is strongest in regard to those industries which can claim that, having the home market secured to them and mainly using home produced commodities as their raw material, they can and do supply the community with their goods at a price equal to or not materially greater than that at which similar goods could be imported from oversea without a duty, but that the protection is necessary because, but for it, powerful combinations of oversea producers could, by undercutting their prices, drive them out of business, and having done so could for the future charge as much as the Australian consumer could be forced to pay. This is a case which commands all possible respect, but the corollary of it is that the measure of the extent to which it can be made out is the measure of the extent to which protection is, on pure economic grounds, justifiable. We are thus provided with a working canon of efficiency and may say that those industries are efficient which can supply or which are likely within a reasonable measure of time to be able to supply their goods at a price not greatly exceeding the cost of similar goods imported free of duty, and not in any case exceeding that cost by more than the community is prepared, with its eyes open, on other than pure economic grounds, to pay for the maintenance of the industries in Australia. Efficiency in this sense should, we think, be generally the condition of protection. Other things being equal, those industries are most likely to be efficient which, producing goods comparatively simple in character and in wide demand, can obtain the benefits of mass production for the Australian market; but mass production is not everything, and it may well be that a small industry producing a commodity for which there is only a limited demand may be able, by the vigorous application of brains and energy to its task, to supply Australian requirements at a reasonable price and thus prove itself a worthy object for protection.

Information
regarding
protected
industries to
be supplied to
Government.

55. A further condition of protection should be that every recipient of it should be liable at any time to be called upon to furnish the Government with the fullest information as to the costs of his products, the prices at which they are sold, and the conditions of his industry generally. The recipient of protection is obtaining a benefit from the public and should be required in return to give to the trustees for the public all the information necessary to enable them to satisfy themselves that the benefit is not being abused.

Necessity for
full scientific
enquiry.

56. We should not be justified by the extent of our knowledge in pursuing the matter in further detail. We are aware that much of the information necessary for a scientific revision of the Tariff is not available anywhere, but we are confident that it is urgently necessary that a full scientific enquiry and investigation should forthwith be instituted by the Commonwealth Government into the wide question of the economic effect of the tariff and the incidence of its duties, with the particular object of furnishing reliable advice to the Government as to the removal of any extravagances and anomalies which it may be found to contain, as to the confinement of its benefits to industries which may reasonably be regarded as efficient, and as to the reduction of its total cost to the community.

Avoidance of
increases of
duties
pending
enquiry.

57. We consider that while the investigation is proceeding legislative or administrative action to increase duties or impose deferred duties should, so far as is consistent with the continued effective working of the existing tariff, be avoided, in order that the investigation may proceed so far as possible untroubled by disturbing changes in its subject matter.

58. We think that the protection which it may ultimately be decided to afford to efficient industries should be high enough to be fully effective so long as the condition of efficiency is satisfied. This may mean in some cases even higher duties on imports than are imposed at present, with consequent encouragement to overseas manufacturers to bring their capital and skill to Australia to assist in local production.

Protection when given to be effective.

59. In some cases investigation on the lines we recommend, followed by appropriate governmental and legislative action, may mean reduction of duties. We realize that reduction in the rate of duty on an article in regard to which preference is accorded to Great Britain may sometimes mean a reduction in the amount of the preference. But if the reduction of the duty is to the economic advantage of Australia and calculated to enhance her prosperity that, as we hope we have sufficiently indicated already, is, to us, the important thing. Great Britain has more to gain in the long run from that source than from any amount of preference accorded to her own as against foreign products, valuable as the tariff preferences which are granted to her in Australia undoubtedly are:

Reductions of duties and effect on British preference.

60. For the rest it is for British manufacturers themselves, if they desire to take advantage of the opportunities of Australian trade, to bestir themselves energetically in the matter by establishing branches of their business in Australia where the goods of the kind which they supply are effectively protected, by acquiring knowledge of the openings which exist for them through visits to Australia of the heads of firms or responsible representatives, by the employment of competent and well-paid agents and travellers, and by using to the full the services of the admirable organization established for their benefit in Australia under the British Trade Commissioner.

The task of the British manufacturer

61. We have observed in an earlier passage in this report that the effects of the protective tariff and of the wages and conditions of labour fixed by decisions under the Arbitration Acts are intimately inter-related, and it is incumbent upon us to offer such observations as we have to make upon the latter subject.

The Arbitration Acts.

62. In every capital city of Australia we have had the advantage of meeting the leaders of the Trade Union movement. We have been much struck by the strength of that movement, reinforced as it doubtless is by the homogeneity of the people and by the active and intelligent interest which they take in all matters affecting their welfare. We have had frank and interesting discussions with the leaders of the movement; and we have found that practically on every occasion the subject of the Arbitration Acts and of the Courts established thereunder has come up during the course of these discussions. By workmen's representatives, not less emphatically than by representatives of the employers, it has been consistently represented to us that the Arbitration Courts are not achieving their purpose and that a system designed to arrive by judicial decisions at fair and prompt settlement of industrial disputes such as could be freely accepted by both sides must be held to have failed.

63. The most important of the reasons which have been advanced for this view are that experience has shown that there arises between the two parties who appear before the Arbitration Court Judge or Arbitrator the spirit of antagonism inseparable from litigation, and that the object of prompt settlement is defeated by the delay occasioned by the necessity for the collection and presentation of detailed evidence in a form acceptable to a Court. It is complained that the procedure of the Court occasions the expenditure of much time and money by the litigants and involves very long absences from their ordinary occupations for a large number of persons whose time might be more profitably employed; that the subject matter of the questions which are brought before the Courts is not of a nature with which judicial tribunals, necessarily unversed in the practical problems of industry or in the economic questions to which they give rise, are best fitted to deal; and that the overlapping jurisdictions of the Federal and State Arbitration Courts have led to an almost inextricable tangle of conflicting decisions so complicated that large staffs have to be maintained to keep track of them and to endeavour to guard against involuntary contravention of any of them in the course of every-day business.

64. The indictment of the system of the Arbitration Courts which we have heard is a heavy one; and we feel that it is well founded on many grounds, and particularly on the ground that the system has tended to consolidate employers and employees into two opposing camps, and has lessened the inducement to either side to resort to round table conferences for that frank and confidential discussion of difficulties in the light of mutual understanding and sympathy which is the best means of arriving at fair and workable industrial agreements.

65. A change in the method prevalent in Australia of dealing with industrial disputes appears to us to be essential, and we hold that there should be a minimum of judicial and governmental interference in them except in so far as matters affecting the health and safety of persons engaged in industry may be concerned.

66. If the settlement of industrial disputes must continue to be referred to Arbitration Courts, we think that the faults of the system will continue to be intensified unless an end can be put to overlapping and conflict between the spheres of Commonwealth and State jurisdiction, and the Courts themselves are laid under an unqualified statutory instruction to have regard to the economic effects of their awards both on the industry with which the awards may be immediately concerned and on other industries which may be indirectly affected by them. We think, too, that it should be a condition of access to an Arbitration Court that the parties should first have made a bona fide attempt to arrive at a settlement of their dispute by way of conference with each other, and that a full statement of the points in regard to which they have failed to arrive at an agreement should be laid before the Court. This procedure should secure that if either side has shown itself unreasonable the Court shall be made aware of it.

67. Further, a system of wage fixation resting upon a basic money wage which rises or falls with a varying index figure of the cost of living is open to the gravest criticism, as tending to deprive employees of any interest in the prosperity of the industry with which they are connected. Let us assume that by better, more energetic, and more willing work on the part of all concerned from the highest to the lowest, the output of Australian industries were increased with no increase in overhead cost. The natural economic effect would be that prices all round would fall and that consumption and profits would rise; but as the cost of living would fall the basic wage would also fall, and with it all wages fixed by the Arbitration Courts in relation to the basic wage with margins for special skill and the like. Thus the system is such as to give the worker in industry no interest in a cheaper cost of living, and no inducement to that increased efficiency which would tend to bring it about. In such a case as we have imagined it would be only right that wages should rise and that the workmen should share in the increased prosperity so largely attributable to them. It is only if all concerned in industry genuinely feel that their own fortunes are bound up with its success or failure that that solidarity in industry which is essential to its prosperity can be achieved.

68. Our Mission was honoured by two of its members being asked to take part in an Industrial Conference held in Melbourne during December last. At that conference the necessity for closer and more friendly relationship between all concerned in industry was fully recognized by the delegates present, and the discussions were of so frank a nature that at subsequent meetings there should be no obstacle to the candid exposition by all the delegates of their difficulties and their aspirations. We hope and believe that from future sessions of the conference there will result the formulation of agreed alternative methods for fixing wages and laying down conditions of employment, which may render the present functions of the Arbitration Courts unnecessary, and substitute for them a system of settlement of industrial problems by industry itself on practical and acceptable lines in an atmosphere of mutual confidence and goodwill.

69. We even venture to hope that the spirit generated from this conference will be such as to facilitate the task, which after investigation such as we have recommended we trust that the Government will undertake, of tariff revision. The problem of the tariff is, as we have said, closely interlocked with that of the fixation of wages and a happy solution of the latter problem should do more than anything else could to make possible the solution of the former under the indispensable conditions of freedom from class or political strife and bitterness.

The basic
wage.

The
Industrial
Conference.

PART III.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

70. We would summarize as follows the conclusions to which we have been led by the considerations set forth in the foregoing pages :—

- (1) The indispensable condition of the promotion of trade between Great Britain and Australia and of the increase of settlement in Australia is the prosperity and absorptive power of Australia herself. (Para. 6.)
- (2) The present financial position of Australia is sound in the sense that her national income and sources of public revenue are amply sufficient to pay for her Government and to provide for the service and repayment of her public debt. (Para. 7.) But
- (3) Australia has, in past years, spent too much unprofitably on development schemes which have been undertaken either without sufficient regard to their probable financial and economic results or without adequate preliminary investigation of the schemes themselves. She has been mortgaging the future too deeply and would do well to restrict her expenditure of borrowed money for development, notwithstanding the inconveniences that must follow from deflation, and to leave the field more widely open to private enterprise. (Paras. 8 to 31.)
- (4) Public accounts should be prepared in such a way as to make clear what is the exact financial position of each Government undertaking. (Para. 16.)
- (5) A proportion of loan moneys raised overseas accrues to the Commonwealth as revenue and is spent accordingly. This is bad finance. (Para. 24.)
- (6) We believe that there will be substantial improvement in the future arising from—
 - (a) The validation of the Financial Agreement and the establishment of the Loan Council; and
 - (b) from the work of the Development and Migration Commission and of the Council for Scientific and Industrial Research. (Paras. 32, 34 and 41.)
- (7) Banks and other financial authorities, and particularly, in the case of loans placed in London, the Bank of England, should be consulted in advance as to the time at which and the terms on which loans should be raised; and the objects of each loan should be fully stated in the prospectus. (Para. 33.)
- (8) Present circumstances in Australia are not favourable to migration, and recent figures of assisted migration show a sensible decline, but good work is being done to promote it, especially in regard to the migration of children, young people and women for domestic employment. (Paras. 35 and 36.)
- (9) The scope of the schemes likely to be approved under the £34,000,000 Agreement is comparatively narrow, and those States in particular which are mainly concerned with primary production are likely to be embarrassed in fulfilling their obligation to accept a specific quota of migrants in respect of each scheme. (Paras. 37 and 38.)
- (10) We consider that the Agreement might be amended and the period of its operation extended so that the funds available under it might be used for work calculated to promote migration into Australia generally, without conditions as to specific numbers of migrants into any State, e.g., for scientific research and for large scale experiments to test its results before they are adopted. (Paras. 39, 42 and 43.)
- (11) The more intensive use of land already in occupation in Australia is a matter of the greatest importance. This should be promoted by scientific research and will increase the country's wealth more surely and rapidly and more cheaply than further extensive development is likely to do. (Paras. 40 to 42.)

- (12) Most vexed and most important of all Australian questions is that of the cost of production with its effect upon export industries and of the combined effects of the Tariff and the Arbitration Acts. (Para. 44.)
 - (13) Their effects and that of the Navigation Acts have laid an unduly heavy burden on the unsheltered primary industries which have to export at the world's price, and on the States principally concerned with such industries, viz.: Western Australia, South Australia, and Tasmania. (Para. 45.)
 - (14) There is ground for the common complaint of a vicious circle of increased prices due to the Tariff, and of increased costs of labour due to Arbitration Awards, and it is urgently necessary to break the vicious circle without lowering the standard of living, i.e., real wages. (Paras. 46 and 47.)
 - (15) The power to alter the Tariff by administrative action must be prudently used if it is not to hamper trade. (Para. 48.)
 - (16) The merits of a policy of protection are not in question. It is the settled policy of Australia and may have been adopted on non-economic as well as on economic grounds. Both grounds may be sound, but it is important that it should be possible to count the economic cost of the sacrifice. (Paras. 49 and 50.)
 - (17) It is a policy difficult to carry out in detail. There is risk of error in the way of giving excessive or too prolonged assistance to infant industries and in the way of protecting inefficient industries, and the total burden of the tariff has probably reached the economic limits. (Paras. 51 to 53.)
 - (18) Efficiency should be a condition of protection, and protected industries should be liable to furnish the Government with the fullest information as to their prices, costs and conditions generally. (Paras. 54 and 55.)
 - (19) A full scientific enquiry and investigation should forthwith be instituted by the Commonwealth Government into the whole question of the economic effect of the tariff and the incidence of its duties. Pending this enquiry there should be no avoidable increase of duties. (Paras. 56 and 57.)
 - (20) Protection when granted should be effective. Reduction of duties may mean decrease in the amount of the British Preference, but if reduction be to the economic advantage of Australia, Great Britain has really more to gain from that source than from preference accorded to her. (Paras. 58 and 59.)
 - (21) The system of settlement of industrial disputes by awards of the Courts set up under the Arbitration Acts has failed, has involved overlapping jurisdiction and conflicting decisions and has tended to divide employer and employed into two opposing camps. There should be the minimum of judicial and governmental interference with the relations between employer and employed; and industrial disputes should be settled by way of discussion and frank interchange of views between the parties concerned. (Paras. 61 to 66.)
 - (22) The system of fixing wages by reference to a basic money wage which rises and falls with a varying index figure of the cost of living is open to the gravest criticism as giving no interest to the workers in the reduction of the cost of living. (Para. 67.)
 - (23) We hope for the best results from the Industrial Conference which has been begun in Melbourne; and we look forward to suggestions from that body for the solution of the problem of fixing wages and settling the conditions of employment. The solution of the closely related problem of tariff revision should thereby be greatly facilitated. (Paras. 68 and 69.)
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PART IV.

SUPPLEMENTARY MEMORANDA AND CONCLUSIONS.

71. We need scarcely refer to the magnitude of our task. It is self-evident from our terms of reference, and has been enhanced, though pleasantly, by the extensive programme arranged for us. Short as our time has been in Australia, we have been shown so much, and have gathered so much information, that the very extent of the field covered has somewhat embarrassed us in the compilation of our report. Had we had more time to devote to its preparation we should no doubt have amplified it, though we do not think that we should have amended it in any material particular. We have to go back to England by different routes, and on our return there must inevitably be greatly occupied with our personal affairs and businesses, so that we have had to make a choice between an immediate, shorter, and less complete report, and a longer document prepared at some future time. We have decided that we should best fulfil our task by presenting now a report containing our views on what appear to us to be main issues, together with supplementary memoranda on the subjects of—

A. Transport.

B. Taxation.

C. Banking.

D. The Development and Migration Commission, the Council for Scientific and Industrial Research, and Economic Research.

E. The Pastoral Industry.

F. Marketing and Distribution.

G. Reciprocal trade between Australia and Great Britain.

H. The Civil Services.

72. These we submit herewith and would summarize the effect of them as follows :—

A. Transport.

RAILWAYS.

(1) That no further construction of State Railways should be undertaken except after a full investigation, and after consideration of the alternative method of road transport. (Para. 7.)

(2) That the State Railways should be placed outside the sphere of political influence and made to pay their way as railway undertakings. (Para. 10.)

(3) That the result of working branch lines, known to be uneconomical as railway propositions, should be separately shown in the accounts. (Para. 10.)

(4) That an investigation should be made as to whether it is not expedient to proceed at once with unification of the railway gauges. (Para. 16.)

(5) That it should be considered whether the £34,000,000 Agreement should not be extended, both as to time and amount, in order to cover some portion of the capital required for such unification. (Para. 17.)

SHIPPING.

(6) That light and harbour and other dues should be imposed only to the extent necessary for the purpose of providing the services rendered, and that no attempt should be made to obtain Government revenue from such sources. (Paras. 23 and 24.)

(7) That the State of Tasmania should be specially considered, in connexion with the Navigation Acts and with the view of, if possible, giving it further benefits in regard to navigation. (Paras. 28 and 29.)

(8) That ships' stores, brought by overseas vessels for the purpose of running the ship, should be free of Customs duty. (Para. 30.)

ROADS.

(9) That the sums made available for transport purposes from the Commonwealth should be placed at the disposal of the States for the purposes of transport in general. (Para. 35.)

AVIATION.

(10) That it is difficult to over estimate the benefit to be derived from the development of this service: it should gradually become self-supporting, at which stage the present Government subsidy should be withdrawn. (Para. 40.)

TRANSPORT GENERALLY.

(11) That co-ordination of transport authorities should be undertaken in all the States, and that by some means co-ordination of traffic for the whole of Australia should be achieved. (Paras. 41 to 43.)

B. Taxation.

(1) That there should be uniformity throughout the Commonwealth and States in calculating income for income tax purposes, and that the combined tax should be paid as one tax in two instalments. (Para 2.)

(2) That a similar course should be taken in regard to calculating inheritance duty. (Para 7.)

(3) That the principle of averaging or of allowing a set-off for losses should be fully recognized by the Australian Governments in making assessments for income tax. (Para 3.)

(4) That land tax if charged should be at an even rate on all land values. (Para. 8.)

(5) That in consultation with the shipowners some more equitable scheme of imposing income tax on shipping profits than that now existing should be arranged. (Para. 5.)

(6) That the profits of non-Australian Companies trading here should be fully assessed. (Para. 6.)

C. Banking.

We think that it is a matter for consideration :—

(1) Whether the Directors of the Commonwealth Bank, if that Bank is to be (as it naturally would be, and indeed is proposed to be) the contemplated Reserve Bank, should not be appointed otherwise than by the Government. (Para. 5.)

(2) Whether its Branches, in so far as they are ordinary trading branches, should not be entirely divorced from the Bank acting as a Reserve Bank. (Para. 6.)

(3) Whether in order to afford proper opportunities for the issue and negotiation of trade bills, which facilitate the business of a Reserve Bank, the stamp duty on bills of exchange should not be very much reduced. (Para. 4.)

D. The Development and Migration Commission, the Council for Scientific and Industrial Research and Economic Research.

(1) That the work of the Development and Migration Commission and the Council for Scientific and Industrial Research should be assisted by further trained staff, as necessary. (Para. 4.)

(2) That closer co-ordination should be effected between these two bodies. (Para. 5.)

(3) That it would be greatly to the advantage of the commercial and manufacturing prosperity of Australia if there were added to the present activities of the Council for Scientific and Industrial Research the sphere of work which deals with the standardization and simplification of manufacturing processes. (Para. 8.)

(4) That an Economic Service should be set up as a separate organization. (Para. 7.)

(5) That for the general co-ordination of the three bodies, the Development and Migration Commission, the Council for Scientific and Industrial Research, and the Economic Service, a Committee should be formed consisting of the heads of the three bodies as members with the Commonwealth Minister, to whom they report, as Chairman, and with some outstanding man as Vice-Chairman. (Para. 9.)

E. The Pastoral Industry.

(1) The direct profits from wool grown on the sheep stations show a tendency to decline. (Paras. 2 to 4.)

(2) Security of land tenure is necessary, and we favour freehold tenure or, alternatively, very long leaseholds. (Paras. 5 to 8.)

(3) We consider that systems of taxation should not differentiate in favour of leasehold as against freehold land. (Para. 9.)

(4) The size of areas granted for sheep raising should be determined by the consideration of the maximum wealth production of the land, not by the consideration of the minimum area on which an individual can make a living. (Paras. 10 to 13.)

(5) The arguments for security of tenure, if possible freehold, are even stronger in the case of large scale cattle ranching than in that of sheep raising. (Para. 14.)

(6) The number of existing meat export works is uneconomically large and ought to be reduced. (Para. 15.)

F. Marketing and Distribution.

(1) Australia must look for her future development in great measure to remunerative exports. (Para. 1.)

(2) High costs of production limit remunerative export mainly to wool and wheat. (Para. 2.)

(3) The home market has been artificially retained for agricultural products, and there is difficulty in marketing a surplus, which difficulty is intensified as the surplus grows. (Paras. 3 and 4.)

(4) Co-operative handling of products retains all the profits for the co-operators but is not always efficient. (Para. 6.)

(5) An export market cannot be built up by looking primarily to the home market. Quality rather than quantity of products should be studied and both should be kept constant for the export market. (Paras. 8 and 9.)

(6) Great Britain being the best market for Australian products the best possible selling organization should be set up there. Other nearer markets should be exploited, but a real export business depends on the cost of production being brought down to world prices. (Para. 10.)

G. Reciprocal trade between Australia and Great Britain.

(1) Reciprocal trade between Australia and Great Britain should be fostered by all practical means. (Paras. 2 to 5.)

(2) The respective fiscal systems of the two countries cause difficulty in the matter of reciprocal trade preferences, and suggestions are made for overcoming it. (Paras. 7 to 12.)

(3) Industrial and personal relations are more important than preferences or bounties. (Para. 13.)

(4) The closest touch should be maintained between British and Australian industrialists. The formation of a Federation of Australian Industries is suggested. (Paras. 14 and 15.)

(5) An illustration is given drawn from the motor car manufacturing industry. (Para. 16.)

H. The Civil Services.

(1) We think that the Civil Services would be greatly strengthened by a more adequate remuneration of the higher posts, and by the introduction of a "cadre" of men of higher educational qualifications than those possessed by the present recruits to the Service, with a view to the performance by them of the higher duties of the Service, and by interchangeability of officers as between the services of the Commonwealth and of all the States. (Paras. 1 to 4.)

(2) An end should be put to the conflict of authority over the Civil Services of the Public Service Commissioners and of the Arbitration Courts. (Para. 5.)

73. It is possible that after our return to England we may think it desirable to submit further memoranda, and if there are any special subjects on which it may appear to the Commonwealth Government that we may be able usefully to make observations we shall be most happy to meet their wishes to the best of our ability. We trust that we need not regard our connection with Australia as ceasing with our visit to her shores. If, in regard to matters of the kind with which we have had to deal, concerning her in relation to the British Government, to the leaders of industry in Great Britain and to the financial world of the City of London, it is thought that any services of ours can be of use to her, it will be a privilege to us to be enabled to give them and we shall regard the giving of them as but a partial return for the way in which we have been received in this country.

74. In concluding our Report we desire to express our very real gratitude for the unfailing courtesy and kindness which we have experienced on all hands in Australia. Most complete arrangements have been made by the Commonwealth and State Governments to enable us to comply with our terms of reference; the staff whose services they have made available for us have worked for us with admirable willingness and fidelity; and all sections of the community have combined to make our sojourn in Australia pleasant and interesting to us and to enable us to obtain the maximum of information in the time available.

ARTHUR DUCKHAM

HUGO HIRST

ERNEST CLARK

D. O. MALCOLM.

7th January, 1929.

SUPPLEMENTARY MEMORANDA.

A. TRANSPORT.

1. Adequate and cheap transport is of paramount importance to Australia's welfare and future development. So fully was this recognized in the past that, when the necessary capital could not be attracted for her railways, they were provided by the Government; and during the post-war period the experiment of running her own ships was also entered upon as a State undertaking in the hope of giving better service to Australia at lower freights.

2. In order to realize the extent of Australia's problem of transport, it is only necessary to remember that she ships from overseas between 5,000,000 and 6,000,00 tons of cargo each year, and sends away a similar amount, that her interstate shipping amounts to more than 6,000,000 tons annually, that she has 25,000 miles of Government railways,* whose cost of construction and equipment has been £303,000,000, that there are approximately 80,000 miles of properly made roads, and that the total length of surveyed roads in Australia probably exceeds 400,000 miles, that she has 645 miles of tramways, which have cost £25,000,000 to construct, that to-day there are nearly 600,000 motor vehicles registered, i.e., nearly one to every eleven inhabitants, and that there are in use some 90 aeroplanes, which in the year 1928 carried over 40,000 passengers, and flew over 1,100,000 miles.

3. It would be idle for us to pretend to be able to deal in any detail with such a vast and complicated subject as this of Australian transport. To do so effectively requires the services of skilled technical investigators for a long period; but, fortunately for us, such investigations have been made in the past and have been available to us, and we have, in the course of our itinerary, interviewed Ministers in charge of transport, Railway Commissioners, Road Commissioners, and the Committee of the Development and Migration Commission which is dealing with motor transport. We have also seen representatives of the interstate and overseas shipping interests, and, owing no doubt to the importance of the subject, and its vital effect upon Australian conditions, we have had suggestions made to us on very many occasions in regard

to it by the representative bodies and citizens with whom we have been brought into contact. Although, therefore, our general survey of the economics of the continent has not permitted us even to touch upon the details of this vital subject, we are constrained to submit our general conclusions on the evidence which we have received. This memorandum is in the briefest possible terms, sufficient only to make intelligible the recommendations and suggestions which we put forward for consideration.

Railways.

4. In spite of the competing services of sea and road transport, it remains true that railways are the most suitable means for the haulage of heavy goods and for carrying passengers for long distance journeys, especially where shipping does not afford a sufficiently rapid means of transport, and it is worthy of remark that Australia has more railways in relation to population than any other country in the world.

5. Practically all the railways in Australia belong to and are worked by the Commonwealth and State Governments. The statistics relating to them are—

| Year ended 30th June. | Mileage open. | Cost of Construction and Equipment | Net Earnings (Gross Revenue, less Working Expenses) | |
|--------------------------|---------------|---|---|---------------------|
| | | | Amount | Per cent on Cost |
| | Miles. | £1,000,000. | £1,000,000. | |
| 1917 | 21,432 | 211.3 | 6.1 | 2.8 |
| 1918 | 22,180 | 220.3 | 6.7 | 3.0 |
| 1919 | 22,647 | 224.9 | 6.3 | 2.8 |
| 1920 | 23,147 | 231.1 | 7.3 | 3.2 |
| 1921 | 23,266 | 235.9 | 6.0 | 2.5 |
| 1922 | 23,502 | 244.4 | 8.4 | 3.4 |
| 1923 | 23,881 | 253.5 | 10.0 | 4.0 |
| 1924 | 24,484 | 263.3 | 10.5 | 4.0 |
| 1925 | 24,844 | 276.1 | 11.9 | 4.3 |
| 1926 | 25,378 | 288.4 | 6.4 | 2.2 |
| 1927 | 25,523 | 303.8 | 8.6 | 2.8 |

* There are also 3,143 miles of privately-owned railways.

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to it by the representative bodies and citizens with whom we have been brought into contact. Although, therefore, our general survey of the economics of the continent has not permitted us even to touch upon the details of this vital subject, we are constrained to submit our general conclusions on the evidence which we have received. This memorandum is in the briefest possible terms, sufficient only to make intelligible the recommendations and suggestions which we put forward for consideration.

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If freights are unduly large they handicap Australian exports, whether of primary products or manufactured goods. They handicap them in two ways, first because if the freight on the goods themselves is large, the c.i.f. price must needs be increased accordingly, and, secondly, because if the freight or articles which are ultimately used or consumed in the production of exported goods is large, this must be reflected in the cost of production of those exported goods.

21. We do not lay the blame for excessive freight on the shipowners, because our enquiries do not tend to show that shipping, whether coastal or overseas, yields an unduly high rate of commercial profit. For instance, we have seen the accounts of a leading Australian shipping company, which show that last year only 7 per cent. dividend was paid, and in the previous year only 5 per cent.—not a high rate of return on capital for a shipping company. Not only was the whole of the profit made last year absorbed in paying the dividend, but some amount of previous profits was used for that purpose. The reserve fund to cover replacement in the case of this company is not an excessive amount. Similar information is available in regard to overseas shipping.

22. If the shipping companies are well managed, and are not making more than a proper return on the capital employed by charging the present freights, they cannot be expected to reduce those freights while their expenses remain on the present level. It is, therefore, necessary to consider what abnormal causes affect the expenses of shipping; they are: (1) High rates for light, port and harbour dues (these affect all shipping); (2) the Navigation Acts, which primarily affect coastal shipping and indirectly affect overseas shipping; (3) the special conditions and high cost of labour in Australia, which, so far as it is incurred in connection with loading or unloading, affects all shipping, and so far as it is incurred for seamen's wages, affects Australian shipping.

23. Port and harbour dues are represented to us as being exceptionally heavy in Australian ports, and it is apparent that in many cases the sums levied are in excess of the amounts necessary to provide the services, the balance being used as Commonwealth or State revenue. In our judgment such charges should be calculated to yield only sufficient amounts to cover working costs, including interest and sinking fund, and to provide out of income reasonable reserves for depreciation and other contingencies, and for necessary improvements, including the provision from time to time of all modern facilities for loading and unloading, such as cranes, conveyors and travellers, unless the capital cost involved is of material amount.

24. We think that the Government should not aim at deriving general revenue from such sources. New South Wales has already passed legislation to prevent this. It is true that, speaking generally, the shipowner is able to pass on such charges in freight, and that they therefore fall ultimately upon the industries using shipping facilities, but this does not justify a charge which is in effect a concealed tax not equitably spread according to taxable capacity over the taxpaying public.

25. The coastal clauses of the Navigation Acts apply to all ships registered in Australia, and to all ships, whether registered there or not, which are engaged in the coastal trade of Australia. They impose certain requirements as to living space for the crew, and prescribe that the wages fixed by arbitration in Australia shall be paid to the crews. It is admitted that the cost of the structural requirements under the Navigation Acts adds considerably to the cost of the vessel, and that the effect of the conditions imposed by these

acts makes it difficult for Australian ships to compete with other ships in the overseas trade, and that it is commercially impossible for ships trading to and from Australia to engage in the coastal trade.

26. The first of these effects is comparable with the effect which is produced by protection on the cost of articles which have to be exported and sold at the world's price. The second effect means that if non-Australian ships are excluded from the coastal trade which would otherwise naturally form a part of their activities, the freights which have to be paid for the remaining services are increased, and this, as we have already explained in respect of harbour dues and similar charges, ultimately adds to the cost of the production of exported articles.

27. We have dealt elsewhere with the cost of labour. In so far as it is excessive it is a handicap to shipping, as to other industries. In the case of vessels engaged in the coastal trade it is offset by the virtual exclusion of other vessels from that trade; but this does not affect the fact that any abnormal cost of labour is added, through the medium of freights, to the cost of all goods landed at, or lifted from, Australian ports.

For these reasons we welcome, so far as regards British ships, the announced intention of the Commonwealth Government to repeal the coastal clauses of the Navigation Acts, and to substitute a duty which we assume will not be prohibitive, because, if it were, it would not really alter the existing state of things.

28. The State of Tasmania requires special consideration in connection with the Navigation Acts. The report of the Joint Committee of Public Accounts of the Commonwealth for the year 1927 says—

"Evidence placed before the Committee was emphatic and unanimous that the Navigation Act had a detrimental effect on Tasmania by imposing a restraint on the free movement of passengers and cargoes."

The Committee, among their observations and recommendations, say—

"In approaching the question of what can be regarded as adequate communications between Tasmania and the mainland, it must be borne in mind that Tasmania, because of her comparative isolation and her separation by water from the mainland, is in a position entirely different from that of any other State of the Commonwealth, and it is on account of such special circumstances that efficient means of transport are essential if Tasmania is to develop and progress. The Commonwealth has already assisted Tasmania financially and has further expressed its intention of helping Tasmania to overcome her difficulties, to retain her population and to increase her production; but unless adequate regular and continuous means of communications are provided to enable the products of the State to be readily and cheaply marketed, these efforts will be wasted.

"Tasmania, as well as other States of the Commonwealth, though perhaps to a greater degree, has, in the opinion of the Committee, suffered as a result of the operation of the Navigation Act; its industries have been handicapped, the establishment of new business has been prevented, and, generally, the development of the State has been hindered. Not only has the Act failed in its purpose to create an Australian Mercantile Marine and to improve transport facilities, but it has, in effect, created two monopolies—the interstate shipping companies on the one hand, and the seamen on the other. The Committee, therefore, recommends that the coasting trade section of the Navigation Act be repealed.

MOTOR VEHICLES.

| Year ended 30th June. | Motor Vehicles Registered. | |
|-----------------------|----------------------------|-------------------------|
| | Number. | Per 1,000 of Population |
| 1921 | 117,163 | 21 |
| 1922 | 139,090 | 25 |
| 1923 | 175,170 | 31 |
| 1924 | 241,869 | 42 |
| 1925 | 305,639 | 52 |
| 1926 | 390,300 | 65 |
| 1927 | 496,367 | 80 |
| 1928 | 565,113 | 90 |

Roads.

32. The importance of the road transport system of Australia is so apparent, and is so fully recognized, that we are only dealing with it and the associated subjects of motor and tramway services in order to give a true perspective in connection with the suggestions which we subsequently make in regard to co-ordination of various transport services.

33. Expenditure on roads is rightly regarded as the first necessity of development, and as we have already indicated in dealing with the subject of railways the latter should only be built if and when road transport is proved to be impracticable or uneconomical. The Committee on Mechanical Transport of the Development and Migration Commission, in a report dated 2nd March, 1928, dealt with the estimated cost of mechanical road transport compared with branch railway operations, and submitted recommendations suggesting that "apart from the advantage of deferring capital expenditure upon prospective non-paying branch railways, mechanical road transport could be economically used for new developmental areas until settlement and production have been carried to a stage which would enable a branch railway line to be constructed and operated without loss."

34. The Commonwealth Road Board and the State and other road boards are, so far as we are able to judge, efficiently dealing with the question of making, improvement and maintenance of the main roads, and, apart from the method of applying the Commonwealth Road Board grant to the States, to which we draw attention below (instancing the special case of Tasmania), we have no suggestions to offer. It is, of course, impracticable within a short space of time and without undue capital expenditure to put even the main roads of the vast territory of Australia into a wholly satisfactory condition, but energetic action is taking place in that direction, and a considerable distance outside each of the cities is now satisfactorily served by roads of a high character. The whole question of providing satisfactory "country" roads is more difficult of solution. The construction and maintenance of the roads in less populous areas, out of funds provided by rates levied on the inhabitants of the locality, means that, unless the industries carried on in that area are to be adversely affected by a heavy burden of rates, the progress in improving the undoubtedly bad roads in such areas must necessarily be slow. It is a question of patient effort, although, given good bridges, roads of a sort are easy to make and maintain in most parts of the back country.

35. We have one suggestion to offer in regard to main roads, namely, that any sums made available for transport purposes from the Commonwealth revenue should be freely placed at the disposal of the States for the purposes of transport in general. The particular case of Tasmania illustrates this point. TL

"To restore in some measure a service which Tasmania at one time enjoyed, and which it is considered will be well patronized, the Committee recommends the amendment of the mail contract with the Orient Steam Navigation Company to provide for an additional call at Hobart to be made during the peak of the tourist season when interstate passengers should be carried."

29. We are of opinion that the Committee's suggestion should be carried into effect, and that all possible benefits in regard to navigation should be given to Tasmania.

30. In the course of our inquiry it has also been suggested to us that ships' stores brought by overseas vessels for the purpose of running the ship should be free of customs duty, i.e., should be distinguished from stores which are sold or consumed by passengers. We support this suggestion. It is one thing to ensure that while the ship is under Australian jurisdiction passengers on board shall not be able to purchase goods at a cheaper rate than if they were on shore in an Australian seaport, but it is another thing to say that stores essential for the work of the ship, not bought in Australia, but brought there on the ship, should be subject to a special tax because they happen to be first taken into use while the ship is in Australian waters.

Roads, Motor Transport, and Tramways.

31. The following are the general statistics in regard to this subject:—

Roads.—Data in respect of the mileage of Australian roads are very meagre, and are not uniform for the several States, and in one of the States no such statistics are collected; it is, however, officially estimated that there are in all approximately 80,000 miles of roads whose surfaces have been paved, concreted, metalled or gravelled.

The total length of surveyed roads in Australia probably exceeds 400,000 miles, of which much is still in its natural condition.

Tramways.—

AUSTRALIAN TRAMWAYS, 1926-27.

(Street Railways for the Conveyance of Passengers.)

| Motive Power | Route Mileage. | | Cost of Construction and Equipment. |
|----------------|----------------|------------|-------------------------------------|
| | Miles. | £ | |
| Electric | 538.4 | 23,453,826 | |
| Steam | 70.6 | 650,091 | |
| Cable | 33.7 | 1,729,398 | |
| Horse | 2.5 | 18,515 | |
| Total | 645.2 | 25,851,830 | |

| Controlling Authority. | Route Mileage. | | Cost of Construction and Equipment |
|------------------------|----------------|------------|------------------------------------|
| | Miles. | £ | |
| Government | 431.1 | 19,084,635 | |
| Municipal | 168.7 | 5,902,019 | |
| Private | 45.4 | 865,176 | |
| Total | 645.2 | 25,851,830 | |

Road Maintenance Board there has an inadequate revenue of £35,000 per year from the motor tax, plus £20,000 from the municipal councils for the up-keep of main roads. These are falling into disrepair, and meanwhile there is a provision of £100,000 a year from the Commonwealth in the shape of a Federal Road Aid Grant, on condition of a contribution of a further £75,000 from the Tasmanian Government, not available for maintenance, but only for the cost of new construction and capital improvement of main roads called Federal-aid roads. This new construction and capital improvement are not really wanted, so that the money put up by the Commonwealth and the State is, in effect, wasted, and the only result is to provide facilities for more motor traffic to compete with the Tasmanian Government railways, which are losing about £300,000 a year. The question suggests itself why the Federal Government should not allow its money to be spent on some form of transport which Tasmania does want, e.g., the maintenance of her existing roads, or even improved shipping communication with the mainland.

36. Another thing that struck us is the bad condition of the stock routes in parts of the country, and the little effective control that seems to be exercised over them. We recognize that it is necessary to avoid the utilization of such routes as a means of obtaining grazing country for nothing, and that they cannot, therefore, be made too attractive for the purpose they are designed to serve; on the other hand, if the routes were in a proper condition and their utilization effectively controlled, they would provide a means for the transportation of stock at a very much less expense than any other way. Indeed, one answer to the pastoralists who call for the construction of uneconomic railways seems to be "Why do you not see that the means of transport which are already provided are kept in proper order?"

Tramways.

37. It is evident from the figures we have quoted in paragraph 31 that tramways in Australia still maintain their place as a recognized means of transport in urban districts. We believe that they are profitable undertakings, but we would issue a word of warning against too great confidence in this state of things continuing, because the experience of other parts of the world—especially the more congested areas—is that tramways are finding difficulty in competing with, and are gradually being ousted by other forces of transport, i.e., buses, charabancs and other motor vehicles. The difficulties created by the increased use of private motor cars, and the consequent congestion of the traffic in the larger cities, makes the rigidity of tramways, confined as they are to special routes and lines, a drawback to their efficiency, although the greater carrying capacity of each vehicle is an advantage at the time of "peak" traffic.

Motor Transport.

38. Motor transport, even at the stage of its present development, has become the ordinary means of carrying passengers over short distances, and carrying goods for distances up to 40 or 50 miles where there are well constructed roads. It is also, by means of the lighter trolley, taking the place of horse-drawn traffic, and appears to be especially suitable as a feeder for the railways. Future extension of motor transport appears to be almost unlimited, and we commend the action of the Development and Migration Commission in setting up a committee to decide upon the most appropriate types of motor vehicles for Australia, and the possibility of the utilization of some other motive power than petrol.

Aviation.

39. The extent to which aeroplanes are being used in Australia is shown in the following table:—

AUSTRALIAN CIVIL AVIATION.

| Year. | Number of Aeroplanes used. | Flights. | | Passengers Carried. | Letters Carried Number. |
|---------|----------------------------|----------|-----------|---------------------|-------------------------|
| | | Hours. | Miles. | | |
| 1924-25 | 59 | 5,300 | 404,000 | 6,100 | 225,000 |
| 1925-26 | 55 | 6,400 | 488,000 | 7,000 | 273,000 |
| 1926-27 | 77 | 10,400 | 773,000 | 17,200 | 291,000 |
| 1927-28 | 90 | 15,600 | 1,141,000 | 40,700 | 302,000 |

The table indicates that for long distance transport of passengers and mails, where speed is important, and where the expense of transport is not a main consideration, this method of transport is gaining in popularity. It is also being used to afford facilities for journeys between the cities and remote places in the States where other means of rapid transport do not exist.

40. It is difficult to over estimate the benefit to be derived from the development of this service; it already serves definite needs; and it probably will be a considerable factor, possibly indirect more than direct, in the development of Australia. It is now subsidized by the Government to the extent of approximately £70,000, but as and when its commercial utility is proved, it should gradually emerge from the chrysalis stage in which State grants support it, into the full flight of a self-supporting undertaking.

General.

41. One of the main questions affecting Australian transport systems is the necessity for a proper co-ordination of them all.

The report of the Traffic Advisory Committee of the State of New South Wales recommended in April last that a Ministry of Transport should be appointed, and that the following activities should be brought within its purview:—

- (1) General State Transport Agencies—
 - (a) State Transport Committee or Commission.
 - (b) Railway Commissioners, excluding Tramways.
 - (c) Main Roads Board.
 - (d) Navigation Department.
 - (e) State motor registration and licensing of drivers—
 - (i) Administration.
 - (ii) Allocation of funds.
- (2) Metropolitan Transport Agencies—
 - (a) Metropolitan Transport Board—
 - (i) Government Tramways.
 - (ii) Government buses.
 - (b) Privately controlled transport service, e.g.—
 - (i) Privately owned buses.
 - (ii) Commercial vehicles.
 - (iii) Taxi-cabs.
 - (c) Sydney Harbour Trust.

It is further suggested that the new Ministry should take over traffic administration including—

- (i) Traffic Advisory Committee (feed).
- (ii) Technical Committees (intermittent).
- (iii) Transport and Traffic Research, Statistics and Public Safety Bureau.
- (iv) Traffic Acts and Regulations.
- (v) Annual Transport and Traffic Congress (honorary).

A Royal Commission, which was appointed last April to inquire into the control and working of the Victorian Railways, reported on the 2nd November, 1928—

“In order to effectively bring about co-ordination between rail, tram and road motor services, which would be in the interest of the competing transport agencies, and of the public, your Commissioners recommend that a Ministry of Transport be constituted and that the transport have jurisdiction over the following services:—

The Victorian Railways,
The Melbourne and Metropolitan Railways,
The Melbourne Harbour Trust,
Road Motor Transport.

It is further recommended that a Transport Board be created, and that such board comprise a full time independent chairman and one representative of each of the following bodies:—

The Victorian Railways Commissioners,
The Melbourne and Metropolitan Tramways Board,
The Country Roads Board,
The Melbourne Harbour Trust, and
The Commercial and Private Motor Owners.”

Both these reports aim at complete co-ordination of all the means of transport, a course of action which experience elsewhere strongly supports.

42. There are many directions in which each form of transport can supplement the working of others and there are, we suggest, possibilities of great economies by the elimination of undue competition.

Whether the association under one Ministry, as is proposed in New South Wales, is a sufficiently close co-ordination of the functions of these various forms of transport, whether a transport board as proposed by the Victorian report, or whether an even closer association under one executive head is the best means of effecting that co-ordination, is a matter of opinion and must be left to Governments to decide. We ourselves favour the exercise of executive power in regard to transport by one official in each State.

43. In particular, we think that such co-ordination would diminish, if it did not remove, the uneconomic competition between road and railway transport. The present position is illogical. The States having constructed railway lines are now providing competing transport agencies with a highway, i.e., the equivalent of a railway, for a more modern form of transport, with the result of depreciating the value of the State owned railways. We do not suggest that it is not the duty of the State to provide a good road where the public, by its action in using an existing road, indicates that road transport is the natural means of communication between two places, but we do suggest that there is great scope for seeing that fresh capital is not unwisely spent, and that assets purchased by past State capital expenditure are not unduly depreciated by the use of fresh State capital. If the States adopt the principle of the co-ordination of all forms of traffic, as we trust they will, it seems to follow logically that by some means a co-ordination of traffic for the whole of Australia should be achieved.

B. TAXATION.

1. We refer to this subject because specific recommendations in connection with the imposition and incidence of taxation have been placed before us by various representative bodies and persons in Australia. We recognize that taxation is primarily a question for the Commonwealth and for each State to settle, and in making the suggestions which we do we have in mind the necessity for previous political agreement between the respective Governments.

2. *Income Tax.*—The principles governing the imposition of this tax are now well established, and a variation in rate, or in the deductions allowed, can be made to effect any desired difference in the amount, or the incidence of the tax in various States. We suggest that there should be uniformity throughout the Commonwealth and States in regard to the method of calculating income for the purposes of income tax, thus at the same time saving administration expenses and annoyance to the taxpayer. We believe that recommendations in this sense were made by a Royal Commission in the year 1922, but not carried into effect, and we suggest that further efforts to secure this desirable object should be undertaken. As a recent writer on this subject says, "Instead of seven separate income taxes and seven separate inheritance taxes, with different rates and exemptions, we should have two uniform taxes, raising with more ease the same or even a greater revenue. Any maladjustment could easily be cured by varying the amount transferred by the Commonwealth to the States." The combined Federal and State income tax might be payable as one charge and apportioned on payment between the Commonwealth and State Treasurers, but the total amount should be paid in two instalments to meet the convenience of the taxpayer.

3. *Set off of Losses.*—Modern thought on income tax recognizes the equity of either averaging the income over a period of years or allowing a set-off of losses against profits, or combining these two principles when calculating the statutory income for purposes of assessment, in order that the State may share as a partner would do in the net results of a business over a series of years. The Federal Government has recognized the principle of averaging for the purpose of calculating the rate of tax, and the principle of allowing a set-off of losses for the purpose of calculating the amount of the assessable profit, but these principles have not been fully accepted in the legislation of the States. The inequity of a system which does not recognize such principles is illustrated in the Report of the Queensland Land Settlement Advisory Board, 1927, paragraphs 118-126. We recommend that the principle of averaging or of allowing a set-off for losses should be fully recognized by the Australian Governments in making assessments for income tax.

4. *Double Taxation (Great Britain and Australia—Commonwealth and Interstate Tax).*—It is alleged, and we believe, that the arrangements to avoid double taxation of income in Australia are not yet wholly satisfactory. This matter is one of considerable importance in view of the necessity for attracting capital to Australian enterprise, because the investor is scared by the idea of double taxation. We, therefore, suggest that every effort should be made by the Governments and the taxing authorities to further any action which is being taken to remedy the anomaly of such a double imposition. We also suggest that the true basis for any final determination is to charge the taxpayer the higher of the two taxes that may be legally imposed by two taxation authorities concurrently, leaving such authorities to apportion such amount, though we think that it might be equitably apportioned by division between two authorities in the ratio of the agreed claims by each of them, and that the taxpayer should

only be required to deal with one taxation authority and pay one, the larger, imposition.

5. *Taxation of Shipping.*—We had placed before us an alleged grievance of the overseas shipping companies. In the words of the Report of the Imperial Economic Committee the position is as follows:—"In the case of the non-resident ship-owner, the Federal Act assumes an Australian profit equal to 10 per cent. of the amount received for freight, passengers and mails shipped at Australian ports for carriage overseas. The taxation is applicable to both liners and tramps and is accompanied by power to refuse clearance of a ship until the tax is paid, or satisfactory arrangements made for its payment. Similar conditions apply generally as regards the State taxation, but the percentage in this case is generally 5 per cent. There is no option under the Federal Act, or under the Acts of the separate States, of claiming an assessment on realized profits. In Western Australia, as the law is drawn, a ship-owner is taxed on an assumed net income of 5 per cent. of the gross proceeds of all inward and outward traffic; but it is stated that in practice the assessment is based on the outward traffic only."

It was alleged to us that the arbitrary proportion of the freight is more than the actual profits, and that no allowance is made for losses. We suggest that the ship-owners should formulate proposals for the taxation of the profits of shipping on the same basis as other income, and that the Governments should be prepared to accept such proposals if they are equitable and practicable.

6. *Foreign Firms and Companies Selling in Australia.*—As a result of suggestions we have received, we recommend that any necessary amendments to the law should be made to prevent the avoidance of income tax by companies and/or persons importing goods into Australia through the medium of subsidiary companies and/or agents; so as to secure the payment of the appropriate tax on the real profits of such companies and/or persons.

7. *Inheritance Duties.*—It is suggested that a similar course to that suggested in paragraph 2 might be pursued in regard to inheritance duties, i.e., that such taxes, both for the States and for the Commonwealth, should be administered by the same officials, with a proviso that all valuations should be made on a proper basis, such as that at present adopted for the Commonwealth duty. In order to avoid any question of State rights or the suggestion that State functions are being absorbed by the Commonwealth, the States might take over from the Commonwealth the administration of this capital tax if the Commonwealth takes over from the States the administration of income tax. In this matter we recall the recommendation, in a similar sense, of the Royal Commission on Taxation in 1922.

8. *Land Tax.*—Land tax is paid on freehold land (as distinguished from leasehold) and is graduated. We are unable to see that this is equitable. The principles which govern such a tax are entirely different from those which govern an income tax, which, by graduation, equitably assumes a greater capacity to pay to be attached to a larger income. Land tax is presumed to be charged by relation to the value of the land, and to apply the principle of graduation to it is unsound; the thousandth acre is no more valuable than the first acre, and should bear no higher rate of tax. We direct attention in another memorandum to the necessity for using land so as to produce the maximum wealth, and in our judgment it seriously militates against such user of the land to charge an increasing rate of tax on an increasing quantity of land. We recommend that if land tax continues to be imposed it should be chargeable at an even rate on all land values.

C. BANKING.

1. We have interviewed the head office representatives of the Trading Banks and the Commonwealth Bank, some of their principal branch managers and the officials of the State Savings Banks, the Government Rural and Agricultural Banks, and Investment and Trading Companies who make advances similar to those of the banks, and discussed with them the general position of banking in Australia. The trading banks have very thoroughly learned the lesson of the year 1893, and there has been no suggestion of any financial difficulty in Australia, so far as banking is concerned since that crisis. They had no difficulties even in war years. The stability of the trading banks may perhaps be fairly illustrated by a comparison given to us between the ratio of capital and reserve to outside liabilities of the three New South Wales trading banks; these are 4s. 5d., 3s. 10d., and 3s. 5d. in the £1 respectively. The criticism, if any, that is levelled against the banks is that they are too tight with their money, and too conservative.

2. The high rate of interest paid by the Savings Banks, and the investment of a large proportion of their funds in Government loans and similar long term securities, tends to restrict the money which is available for ordinary trade purposes, and this fluid capital is also diminished by the practice, which is common to the banks in Australia, of making advances against real estate ("broad acres"), including pastoral and agricultural lands. It must be borne in mind, however, that without the facilities thus afforded by the banks, it might reasonably be claimed that the development of the country would have been far less rapid than has been the case; nevertheless, such advances render less fluid the financial resources of the banks for the purposes of ordinary trade advances.

3. Borrowing is checked by the banks by means of rationing the amount of fresh advances to clients rather than by raising the rates of interest, the Australian temperament being such that the latter course would probably not be effective, particularly in view of the probability of an increment in the value of land purchased with borrowed money. On the whole, the farmer is a desirable and safe client for the bank, and little, if any, losses have been made on the advances on the security of "broad acres".

4. In Australia a much greater proportion of credit business is done by means of overdrafts than is the case in Great Britain, and the bankers whom we saw were of opinion that it would be advisable, if possible, to substitute bills of exchange for bank overdrafts, especially in connection with the supply of credit facilities in the event of the setting up of a reserve bank, because part of the machinery of a central bank is the acceptance and discounting of trade bills whereby trade credits are automatically increased when and in proportion as an expansion of trade may call for such action, or automatically decreased when the course of business naturally calls for a diminution in the available credits. The primary difficulty in effecting such an alteration is the cost of stamping the relative documents (bills of exchange). In Victoria this is 4s. per cent., and to reduce this (say to 1s.) would greatly encourage the desirable practice of using bills of exchange in substitution for overdrafts.

5. The question of establishing a reserve bank was discussed at all our meetings, and we found that, generally speaking, the banking community is in favour of such an establishment, though there are some reservations as to the expediency of making the Commonwealth Bank that reserve bank, because the Commonwealth Bank at present acts as an ordinary trading bank, and, therefore, does not wholly fulfil the following conditions of the central bank, which, *inter alia*, Sir Ernest Harvey in a recent article laid down as being essential for such a body:—

"A central bank, in its management and policy, should be free from Government control and the influence of politics."

"The assets of the central bank should be of the most liquid character possible."

"A central bank should be the banker of the trading banks."

"A central bank should not ordinarily compete with the trading banks for general banking business."

"A central bank should quote publicly the rate at which it is prepared to discount approved bills."

6. A recent author, writing on central banks throughout the world, says: "In the case of Australia, where the question of establishing a true central bank is now under discussion, one of the issues that will have to be faced is that the Commonwealth Bank of Australia is, under the present law, permitted to engage in general banking business to an extent inconsistent with the responsibilities of such an organization". He also says: "Such a vague provision as that in the law regulating the Commonwealth Bank of Australia, namely, that it may make advances on any security that it thinks sufficient, would be out of place in the character of a true central bank".

7. We have no desire to intervene in the question which the banks are fully and scientifically considering, but because we are of opinion that the establishment of a bank of reserve (which at the same time would facilitate trade and add security) is desirable, we think it is a matter for consideration:—

(a) Whether if the Commonwealth Bank is to be (as it naturally would be, and, indeed, is proposed to be) the reserve bank, the directors should not be appointed otherwise than by the Government.

(b) Whether its branches, in so far as they are ordinary trading branches, should not be entirely divorced from the bank acting as a reserve bank.

(c) Whether in order to afford proper opportunities for the issue and negotiation of trade bills, which facilitate the business of a reserve bank, the stamp duties on bills of exchange should not be very much reduced.

8. It was suggested to us by the bankers themselves that greater use might be made of their financial resources if they were fully consulted some time before the issue of Government loans and securities in order that they might the better take any necessary action to support such issues.

D. THE DEVELOPMENT AND MIGRATION COMMISSION, THE COUNCIL FOR SCIENTIFIC AND INDUSTRIAL RESEARCH, AND ECONOMIC RESEARCH.

1. The terms of our reference placed us into immediate and intimate contact with the Development and Migration Commission, whose scope of activities includes many of the matters which we were asked to consider. One or more members of the Commission accompanied us during a considerable portion of our itinerary in Australia, and we have had a number of prolonged meetings with the Commission as a body.

2. We have also met the Council for Scientific and Industrial Research, and have made inquiries into their work, which marches in some directions with that of the Development and Migration Commission. But, while the latter body deals (*inter alia*) with the application of scientific truths and discoveries, the Council at present is mainly concerned with purely scientific investigations, chiefly related to agricultural subjects.

3. We have emphasized in our report our appreciation of these two bodies and of the services they are rendering to Australia, not only by their direct investigation of business and scientific problems, but by fostering a spirit of co-ordination and collaboration between the various Government agencies with whom they are respectively brought into contact.

4. We are satisfied that the inception of both of these services is well founded, and that the results they have achieved are eminently satisfactory, especially in view of the short time they have been in existence, and we think that their hands should be strengthened in every practical way, especially by means of efficient staffing. Incidentally, we may mention that the recruitment of suitable staff is not an easy matter in view of the many qualifications which are necessary in the multifarious duties undertaken by these bodies.

5. The relationship between the two bodies, which are often engaged in the investigation of the complementary sides of the same problem, is a cordial one, but we would suggest that means should be taken to make more close their co-ordination and collaboration, so that each may take full advantage of the knowledge and departmental facilities of the other. Otherwise, having regard to some similarity between their respective functions, it is possible that their work may occasionally overlap. At the moment we are inclined to think that this co-operation is not so complete as to lead to the maximum effect from their efforts, and that there may be some necessity, therefore, for defining more closely and accurately the respective functions of the two bodies.

6. At the present time there are several authorities whose sphere of activities demands trained economists. The Development and Migration Commission has necessarily to consider economics in connection with any scheme of development; the Council for Scientific and Industrial Research is also concerned not only with

economics as a science, but with the application of that science to the result of their investigations. The Tariff Board must consider the economic effect, not only on the particular industries to which protection is afforded but on other industries, of the imposition or removal of protective duties; and we think that the Arbitration Courts should consider the wide economic effect of any contemplated decisions which they may be called on to give in regard to wages.

7. It has been proposed to establish a service to deal with economic problems, and that this service should form part of the work of the Council for Scientific and Industrial Research; but the sphere of activities of the proposed service is, in our opinion, so important as to demand a separate organization. Moreover, we think that such an arrangement would be desirable in order that the present work of the Council for Scientific and Industrial Research should not be prejudiced in any way by the actions or conclusions of the new service. This new service must necessarily deal with problems which directly affect the political life of the country, and it must accordingly be placed and regarded as entirely outside the sphere of political influence and its recommendations considered as scientific and unbiased.

8. In connection with the proposals which follow, we suggest that it would be greatly to the advantage of the commercial and manufacturing prosperity of Australia if there were added to the present activities of the Council for Scientific and Industrial Research the sphere of work which deals with the standardization and simplification of manufacturing processes.

9. We thus obtain three bodies—

The Development and Migration Commission;
The Council for Scientific and Industrial Research (with functions amplified as suggested in para. 8); and
An Economic Service;

responsible to one Commonwealth Minister, and we suggest that they should be brought together in one Committee with the Minister as chairman and the heads of the three bodies as members. In order to obtain proper co-ordination of their activities, we would recommend that there should be a vice-chairman, who would not be required to give any great part of his time, and who might be content to serve without remuneration, but who would keep in closer touch with the details of the work than the Minister would be able to do. It will not be easy to obtain such a vice-chairman. He must have a scientific mind, a wide knowledge of the conditions of the country, and a clear and unprejudiced view of economics, but in spite of the difficulty of personnel we suggest that the linking together of these three services under one Minister and an informed and effective vice-chairman would lead to the best co-ordinated results.

E. THE PASTORAL INDUSTRY.

1. It is not the purpose of this note to offer any comprehensive or detailed observations upon the pastoral industry generally. The main facts regarding it are too well-known and its importance is too generally recognized for any such task to be necessary. It is intended only to call attention to one or two points in connection with it which seem to be of special interest to our Mission.

2. In the first place we have been struck by the figures given in the table printed on page 6 of the very able Report dated 30th August, 1927, of the Queensland Land Settlement Advisory Board, comparing the cost of running a sheep grazing property, described as "a carefully managed holding in the Hughenden district", of shearing sheep and of realizing wool for the year 1911 with the corresponding cost for the year 1925. The Report states that these figures may be taken as universally applicable to holdings of similar carrying capacity in North Queensland. They show a cost increased by 7.04d., a price increased by 6.55d., and consequently a net return decreased by .49d. per lb. of wool in the latter as compared with the earlier year.

3. The comment of the Land Advisory Board is worth quoting in full:—

"These figures show that the costs of production are becoming very high and the margin of profit left to the grazier for his wool is small. In 1911 the profit from wool on this property was 3s per cent. of gross returns; in 1925, before the drought, this profit had, by climbing costs of production, been reduced to 1s per cent. Thus many graziers are left to depend on their annual sales of sheep for their main profit. So long as there is a local market for surplus sheep the position is safe. But if surplus sheep could not be sold the industry would be faced with another crisis."

4. If the position here indicated obtains generally elsewhere in Australia than in North Queensland!—and we have no reason to think that it does not, although we do not overlook the fact that the yield of wool per sheep has tended to improve in recent years—the growing costs of wool production must give rise to some anxiety. The problem presented by them is, however, only a part, though a very important part, of the general problem of high costs of production which we have discussed in our main report (Part II. hereof).

5. We are primarily concerned here with the question of certain measures which might be taken to improve the position of the industry in the matter of security of land tenure and of the size of the area which one individual partnership or company is allowed to acquire. Our impressions have been gathered mainly in Queensland, but we think that what is true of that State in regard to the pastoral industry is true generally *mutatis mutandis* elsewhere.

6. In respect of both the points to which we have referred, matters have been greatly improved in Queensland from the point of view of the wool grower within the last two years, as the result of the report from which we have quoted and of the subsequent action of the Land Administration Board. Previous Queensland Governments seem to have set themselves to break up the large pastoral estates and almost to have exposed themselves to the charge of adopting a hostile attitude towards them. To-day things are better, since a man can get, in the remoter districts, a pastoral lease for 40 years, with a liability to the reappraisal of the unimproved value of his land, and consequently to an increase of rent, at the end of

the twentieth year, and can apply at the end of the thirtieth year for a renewal of his lease so that he may know ten years before his lease comes to an end whether he will be allowed to continue to rent his holding or a part of it, and if so, what part and at what rent, on the expiry of his current lease. Similarly with grazing leases; in the less remote areas a man can get a 25 years' lease liable to reappraisal every seven years and, if he likes, apply for renewal at the end of the twenty-first year; but the Government seems to be deeply wedded to the principle of terminable leases at rents which are admittedly low, and to be averse from freehold. The idea of capturing "unearned increment" for the State is much in its mind.

7. It seems to us that, from the point of view of security of tenure, and consequently of the encouragement of capital for investment in the development of lands which, at present, and for as far in the future as it is worth while to look, are only suitable for cattle or sheep raising on an extensive scale, there is much to be said for giving a tenant the option to convert his lease into a freehold after, say, ten years from the commencement of his lease, conditionally on his having carried out stocking and other improvements to the satisfaction of the Government, at a price fixed at the commencement of his lease. The price should be fixed on the fair profit-earning capacity of the land over a term of average years given reasonably efficient management. This, after all, is all that the Government has got to sell. It ought not to expect more, and is not likely in the long run to be able to get more.

8. Instances came under our notice of the drawbacks to the present system of terminable leaseholds. We were told of lessees of large areas who, during the last years of their leases, refrained from making the improvements necessary to enable full economic use to be made of the land, and for which they had ample capital, because of their uncertainty as to what their position would be at the end of their lease. We have heard on good authority that there have even been a good many cases of people on whose land prickly pear was spreading during the last few years of a lease not troubling to deal with it. It was not worth their while as their leases were coming to an end.

9. It would, of course, be a corollary of the acceptance of the principle of freehold that taxation applying to freehold land only, and not to leasehold, should be abandoned; or, if it was thought necessary specially to tax land at all as against any other form of property, that the burden of taxation should be distributed equitably as between freehold and leasehold. If there is some insuperable objection to freehold as such, and if, for some reason, there must be taxation of freehold and not leasehold land, the objections which we feel to the present system might in great measure be removed by granting very long leases, say, 99 year leases, at fixed rents, with no reappraisal and consequent liability to increase of rent during the 99 years, and with full compensation for unexhausted improvements at the end. But this comes very near to freehold, which we are inclined to think is really the sounder system.

10. Turning to the question of the size of the area which one person (including in that term a partnership or company) should be allowed to hold, we found that the mind of the Government and indeed the minds of many men who, having regard to their personal interests, might be expected to take the opposite view, are fixed on the idea of getting as many people as possible directly on to the land, and not on the idea of making the maximum possible economic use of the land, that is to say, of getting the maximum of wealth production from it. Consequently, when the leases of

large areas fall in, the Government asks itself what is a living area, i.e., what is the minimum area on which a man ought to be able to make a decent living. The land is then subdivided accordingly. In past years it was undoubtedly subdivided into too small areas, and people overcame the difficulty to some extent at least by "dumnying" and aggregation. For example, a man would take one area in his own name, another in his wife's, another in his brother's, and so on. Things are better now, and the "living area" has now come to be about 20,000 to 60,000 acres according to the locality, i.e., an area carrying say 6,000 sheep (there are many who think that it should be increased to an area carrying, say, 10,000 sheep), but the idea of the "living area" and of the maximum number of people who can be got directly on to the land governs it all. There may be insuperable political difficulties in the way of much larger areas, but there is a considerable body of opinion that such areas properly handled by persons of adequate capital mean a higher class of sheep and more wealth production, both in point of quantity of wool per acre and of quality of wool, than could be got from the same area split up into a number of "living areas". Large areas are more economical in the matter of overhead expenses, buildings, shearing sheds, machinery and the like, than a number of small ones.

11. Inasmuch as Australia so largely depends upon wool production it seems obvious that the most economical use of the land suitable for it would be that best calculated to promote the wealth, prosperity and population of Australia generally, though the increase of population might not be found on the wool-growing land itself. There is a general reluctance to admit this proposition, though there is a general admission of the premise on which the argument rests; an instance, perhaps, of a tendency to take short and not long views in economic matters. Yet we had indications of the drawbacks of the comparatively small area, called the "living area," before our eyes, as for instance when we passed from a big station where the owner had little temptation to over-stock through the land of a "selector" on a "living area." The former had ample winter pasture; the latter was almost grazed bare. The temptation to increase a small profit by over-stocking had been too strong; there was no reserve of grass, and even a short drought would be sure to land the selector in serious difficulties. We heard in many quarters of a dangerous tendency towards deterioration in the quality of wool owing to the "small men" not being able to obtain first-class stud stock as the "big men" are, and having to be content with buying the rejected stock of their larger neighbours.

12. It is, of course, impossible for us to suggest what the size or the average size of a holding ought to be, but it does seem to us that it ought to be such that, with proper capital, the maximum economic use from the point of view of wealth production can be made of it; and that it is on this point that the eyes of the Government ought to be fixed and not on the question of the minimum from which an individual can extract a decent living.

13. By way of illustration of the foregoing it may be worth while to mention that we saw in Queensland several artesian bores, yielding some hundreds of thousands of gallons of water per day. The water is distributed over the sheep stations in shallow surface drains. This is no doubt a cheap method of distribution, but there must be heavy losses by seepage and evaporation. The cost of distribution by pipes to the points where the water is most required may be prohibitive to-day, but it suggests itself as an improvement which capital might be induced to effect, given sufficient security of tenure.

14. In the case of cattle-ranching, the arguments for freehold tenure and large areas are even stronger than in the case of extensive sheep grazing. Cattle-ranching on a large scale, as distinguished from the more intensive occupation of breeding and fattening store cattle, is pursued in more remote and inaccessible areas than even the most extensive sheep grazing; and the history of most countries comparable with Australia shows that it generally precedes sheep raising in such areas by many years and, in a sense, prepares the way for it. Cattle-ranching is practically confined to north-west Queensland, the Northern Territory, and the north and north-west of Western Australia. It is an undertaking which, properly conducted, involves very heavy capital expenditure on fencing and pad-docking large tracts of country, and on the development of water supplies, and involves a long wait before profits can be expected. Indeed, we believe that the experience of most ranching companies is that profits in the end are to be expected rather from the appreciation in land values brought about by ranching operations than directly from the sale of ranch cattle. In our opinion, fresh capital is very unlikely to be attracted to cattle-ranching in Australia on a serious scale unless those providing it can be granted very large areas with an option exercisable after a reasonable period, say ten years, from the commencement of their operations to obtain freehold at a price fixed at the commencement.

15. Given these conditions, we see no reason why Australia should not take her proper place among the cattle-ranching countries of the world, but the industry appears to be languishing at the present time, and to be unable to support the large number of meat export works that have been established to deal with its products. These indeed seem to us to be excessive in number. We were somewhat astonished to learn from a memorandum submitted to us by the representatives of the Queensland beef cattle industry that, whereas there are in the Argentine Republic 30,000,000 head of cattle and eleven export works with daily killing capacities of from 800 to 4,000 cattle, there are in Queensland the same number of export works, namely, eleven (several of them, as we saw for ourselves, situated close to one another on the Brisbane River) with a total daily killing capacity of about 4,000, and only 5,200,000 head of cattle in the State. The average actual yearly killing for the period 1914 to 1920 in the Queensland export works was stated at 372,441 head of cattle, or rather more than 1,000 head a day, representing only rather more than one-fourth of the total killing capacity of the eleven works. It seems obvious that the killing industry should be concentrated either by the amalgamation of existing undertakings or by the elimination of the less efficient.

16. Lest it should be thought that we have too little sympathy with the ideal of closer settlement we will observe that we have laid stress in our main report (Part II., paragraphs 40 and following) on the desirability of the more intensive development of land already settled or partially settled in Australia, rather than of further extensive development. It is to the former rather than to the latter object that we think that effort and capital should be devoted. The spread of closer settlement should follow by a natural process. As the productivity of land intensively developed increases the profits to be derived from it will increase also; and land in the margin between intensive and extensive occupation will tend to fall into the former category, either because the occupier will turn from sheep or cattle raising to agriculture, or because the rising value and price of land will induce him to sell his ground for that purpose.

F. MARKETING AND DISTRIBUTION.

1. In paragraph 70 (12) we say that—

“Most vexed and most important of all Australian questions is that of the cost of production with its effect upon export industries and of the combined effects of the Tariff and the Arbitration Acts.”

Australia must look for her future development in great measure to remunerative exports. To-day wool and wheat are the principal exports which show a profitable return.

2. Costs have seriously increased in wool and wheat production, but the strong demand for wool and the highly organized and mechanised production of wheat still permit of clear profits being obtained from their sale. As to minerals, only the richest mines can be worked under Australian conditions; we have been told that there are many properties which would be considered of high grade in countries such as Canada and the United States of America, which are left unworked in Australia owing to the high costs of operation.

3. A great variety of agricultural products has been produced to meet the demand of the home market. In most cases this demand has been artificially retained for the home production by a system of tariffs on imports, with a consequent increase in the cost of living.

4. A great problem facing Australia when production overtakes the home demand and a surplus is available, and this surplus has been produced at a higher cost than in other exporting countries, is that of marketing such surplus. So long as it is but a small percentage of the total production, the difficulty can be and has been met by schemes for assistance from within the industry itself or from the Government. When the surplus assumes large proportions, then the problem of marketing becomes greatly intensified and even critical because the home consumer may be unwilling to bear the cost imposed on him to assist the overseas market. The surplus of production has been intensified by far reaching developmental schemes which have been embarked upon without due consideration of the question of how the resulting increase in production can be marketed. Improved and scientific methods of production, although they will reduce costs, will at the same time permit of a bigger output being produced on the same areas.

5. Nevertheless, the first step is to reduce the cost of production. This need is common to all industries in Australia and is dealt with in our main report. It is often said that the price of agricultural land is too high and that this high price is an important element in high costs of production. But though there is an economic “lag” in land prices, so that they move slowly, in the long run they must reflect what a willing seller will accept from a willing buyer. No doubt the grant of subsidies, direct or indirect, to the products of the land tends to raise land prices, but then the farmer gets the benefit of the subsidies in relief of his costs of production. No doubt high prices, perhaps too high prices, have been charged for land on which heavy expenditure for irrigation and the like has been incurred. But they cannot remain permanently too high. If they are not justified by the profits which can be made from the land they must come down.

Generally, high land prices are an effect of high profits, no less than a cause of high costs of production from land.

6. As the producer is usually in a small way of business, it is necessary that he should join with his neighbors for the co-operative handling of his product, or for its disposal through some central organization. We have investigated a number of co-operative activities; we realize that all profits accruing return to the co-operators, but we believe that by no means all of these organizations are operated with full efficiency and also that there are many more of them than is necessary for or in the best interests of the industries concerned. Co-operative organizations are prone to carry on with a controlling staff usually enlisted locally and at a low remuneration, while the turnover of the organizations properly constituted warrants the employment of the best men available. We have been struck by the fact that private is apt to be more successful than co-operative enterprise in handling agricultural products.

7. We have found that costs of distribution as well as of production are excessive; and we have had many instances given us of higher freight charges for similar goods between Australian ports than between Great Britain and Australian ports.

8. We find that the requirements of the markets for evenness of quality are being studied, but we do not consider that the amount or the kind of work that is necessary to create and hold an export market has been fully realized.

9. The Australian policy has been in the past to look primarily to the home market and to export only a surplus giving the easier home market preference in marketing service. It is not possible to create an export market by these means. First, on account of high costs of production the attention of producers should be directed to quality rather than quantity. Secondly, an export market should be created on the basis of a demand for Australian goods as such because of their high grade and constant quality. We find that Australian goods often lose their identity in the British market, and yet Australian butter and fruit are equal to the best from other countries. Thirdly, a constant quantity of goods should be available for the export market. If there is a seasonal decline in the output, deliveries should be curtailed to the home rather than to the export market. The higher price obtained on the home market, due to the stronger demand, would go towards compensating producers for the smaller output. Fourthly, if there is a seasonal glut, care should be taken to maintain the standard of quality, and any surplus of lower grade should be sold as such and preferably not marketed as Australian goods.

10. Great Britain is probably the best market for the products under consideration, and therefore the best possible selling organization employing the highest grade of salesmen should be set up there, preferably outside all Government control. At the same time there are markets nearer to Australia, and we recommend that their exploitation should be undertaken by the best men available under the instructions of the organizations of the industries concerned. But we do not believe that Australia can develop a real export business in agricultural products unless the cost of production and delivery can be brought down to world prices for an equal quality of goods.

G. RECIPROCAL TRADE BETWEEN AUSTRALIA AND GREAT BRITAIN.

1. Our terms of reference lay emphasis on the problems of the promotion of trade and commerce between Great Britain and Australia.

2. We recognize that reciprocal trade in the widest sense is a necessity for the sound economic development of each nation, and as such should be fostered by any practical means and at any justifiable cost.

3. Both nations desire to strengthen the world position of the British Empire and to develop and conserve the wealth produced from its resources for the benefit of the British races. Australia must increase her population for political and economic reasons, and has adopted a policy of maintaining a purely British

stock; Great Britain has a surplus population, and wishes to find the best outlet for it.

4. It is essential for Australia to establish a reliable and sympathetic market for her primary and agricultural products, while Great Britain must develop similar markets for her great diversity of manufactured goods. The most promising market for Australia's exports is Great Britain, and the natural method for Australia to take payment for these is by the import of manufactured goods from Great Britain.

5. The following tables set out the values of certain selected imports into Great Britain and Australia, and forcibly demonstrate the possibilities for increased reciprocal trade:—

CERTAIN IMPORTS INTO THE UNITED KINGDOM, 1926.

| | From Australia. | From other British Possessions. | From Foreign Countries. | Total Imports. |
|-----------------------------------|-----------------|---------------------------------|-------------------------|----------------|
| | £ | £ | £ | £ |
| Butter | 5,759,695 | 13,956,675 | 28,566,942 | 48,283,312 |
| Cheese | 244,290 | 11,730,520 | 1,985,738 | 13,940,648 |
| Wheat | 6,287,438 | 25,118,826 | 31,429,138 | 62,835,402 |
| Wheat Products, Meal and Flour .. | 1,061,901 | 4,763,970 | 2,980,581 | 8,806,452 |
| Other Grain | 75,142 | 3,776,899 | 20,752,918 | 24,604,959 |
| Eggs and Poultry | 312,912 | 4,125,912 | 17,052,618 | 21,491,442 |
| Flax | | 109,706 | 3,463,492 | 3,573,198 |
| Fruit | 2,206,098 | 6,650,239 | 28,236,296 | 37,092,633 |
| Skins and Hides | 2,807,447 | 6,956,837 | 19,742,545 | 19,506,829 |
| Lard | 9,252 | 1,137,653 | 7,663,944 | 8,810,849 |
| Leather | 172,471 | 4,611,434 | 9,289,061 | 14,072,966 |
| Meat | 5,737,566 | 21,954,142 | 83,942,920 | 111,634,628 |
| Olive Oil | | 262 | 586,093 | 586,355 |
| Sugar (unrefined) | 2,428,226 | 6,931,471 | 16,618,445 | 25,981,142 |
| Milk (Condensed) (unsweetened) .. | | 147,529 | 871,991 | 1,019,520 |
| Tallow (not refined) | 390,529 | 725,006 | 813,891 | 1,959,426 |
| Honey | 1,029 | 79,046 | 90,257 | 170,332 |
| Wool | 25,637,326 | 28,862,554 | 8,086,694 | 62,586,674 |
| Cotton | 143,746 | 9,719,292 | 74,585,318 | 84,448,356 |
| Wine | 366,863 | 86,733 | 6,853,747 | 7,307,343 |
| Copper Ore | 772 | 1,055,080 | 670,385 | 1,726,237 |
| Total | 53,622,703 | 152,502,886 | 354,313,014 | 560,438,603 |

CERTAIN IMPORTS INTO AUSTRALIA, 1926-1927.*

| | From United Kingdom. | From other Countries. | Total. |
|---|----------------------|-----------------------|-------------|
| | £ | £ | £ |
| Foodstuffs of animal origin .. | 524,889 | 2,524,702 | 3,049,591 |
| Apparel, Textile and Manufactured Fibres .. | 23,456,863 | 18,968,184 | 42,425,047 |
| Metals, Metal Manufactures and Machines | 25,102,800 | 26,142,787 | 51,245,587 |
| Paper and Stationery .. | 5,050,164 | 2,880,942 | 7,940,106 |
| Jewellery, Timepieces and Fancy Goods .. | 901,502 | 1,946,410 | 2,849,912 |
| Earthenware, Cements, Glass | 1,419,125 | 1,199,577 | 2,617,702 |
| Drugs, Chemicals and Fertilizers | 2,082,031 | 2,933,239 | 5,015,270 |
| Rubber, Leather and manufactures thereof .. | 1,126,603 | 4,460,473 | 5,587,076 |
| Total | 59,671,977 | 61,058,314 | 120,730,291 |

* Figures taken from the *Quarterly Summary of Australian Statistics*, September, 1927.

6. We have approached these problems from the point of view of what is best for Australia in the belief that the permanent increase of Australia's prosperity and productivity is an essential condition of increased trade with Great Britain.

7. Arrangements for reciprocal trade preference between the two nations are hindered at the outset by Great Britain's policy of free imports and by Australia's policy of tariffs imposed to develop and protect her own industries; and, further, it must be borne in mind that Great Britain cannot give preferential treatment to Australia without extending similar treatment to the other parts of the Empire.

8. We believe that reciprocal trade is not only an ideal but a necessity and, therefore, that each nation should be prepared to meet such costs as it may be found necessary to impose in order to promote it.

9. Although Great Britain is a country which has followed the policy of free imports, she does levy a revenue duty upon certain classes of goods; already certain remissions of these duties in favour of Empire produced goods exist, but some extensions of these remissions might be favourably considered if by such action it can be shown that reciprocal trade is benefited.

10. In our report we have dealt, in connection with infant industries, with the question of bounties versus protection. We hold that bounties cost less

to the community than protection does, and are subject to fewer abuses in that the cost to the community is more easily ascertained and appreciated. It would therefore in our judgment be well, both from the political and the economic point of view, for Great Britain, if she deems it to be desirable to make further contributions to preferential trade, to do so in the form of direct assistance to the marketing of Australia's produce.

11. We believe that a close enquiry, assisted by experts and the opinions of those directly concerned with the various commodities in both countries, into the incidence of tariff and preferences would reveal many anomalies and would show that in some cases the scope and scale of the present preferences to Great Britain are not so effective as the mutual desire for reciprocal trade warrants, and in other cases that the cost to Australia is not as low as it might well be.

12. We hold that the imposition of suitable safeguards for the importer should be a condition of the granting of a preferential rate. At the present time, under the Australian "anti-dumping" regulations, a person exporting goods to Australia may be required to furnish proof that the prices of his goods are not lower than those ruling in the country of origin. The information required from him under this regulation might quite well be used for the alternative purpose of ascertaining that the f.o.b. prices of preferred exports to Australia are not in excess of the general prices ruling in Great Britain.

13. So much for the national aspect: we would turn now to the question of industrial and personal relations, which we believe are more important from the point of view of the promotion of reciprocal trade than preferences or bounties. We have realized that there is a very strong inclination throughout Australia, first to buy Australian-made goods and after that British; propaganda work in Great Britain is doing a great deal to engender in the consumer the desire to buy Empire goods, and this spirit should be encouraged as much as possible in both countries.

14. It is desirable that Australian industrial and commercial practice should advance as far as possible along British lines and in accordance with British

standards. It is evident that in the past British industrial practices have been laid down primarily to meet British conditions. Australian needs should also be studied, and, if possible, British practice and standards should be modified when this can be done with advantage to meet Australian conditions.

It is essential that British manufacturers should clearly appreciate the present needs of Australia, and the trend of her developing requirements.

15. We have realized that a far closer touch should be developed and maintained between British and Australian industrialists and institutions concerned with industrial problems. We suggest that a Federation of Australian Industries, possibly emerging out of the existing Chambers of Commerce and Manufactures, should be formed, corresponding to the Federation of British Industries; that there should be the closest exchange of information through the Secretariats of these two organizations; and that periodical visits by leading representatives of each organization should be arranged to the other's country.

16. We believe that it would be to the benefit of both countries if home and dominion manufacturers developed a policy of co-operation. For instance, take the motor car industry: Australia can at present produce economically the car bodies, tires, springs and sundry accessories, but not the chassis, engine, &c. It should be the aim of both countries that Australia should produce, when the demand and local industrial conditions warrant it, further parts of the car until possibly the whole manufacture is carried out in Australia, thus finding work for more people (probably British migrants) and British capital. Meanwhile, effective preference might be given to the British manufacturers on those parts of motor cars which Australia cannot make for herself. Other instances might be given as a result of our investigation, such as in the textile, ceramic, iron and steel industries.

17. There is certainly not a proper understanding to-day in Great Britain of the possibilities of trade with Australia. On our return we shall hope to use such influence as we possess to recommend individual manufacturers to establish closer relations with Australia; and our views as to the best methods of promoting trade will be available for British trade associations and others interested.

II. THE CIVIL SERVICES.

1. In the course of our enquiries we have naturally been brought into contact with many members of the Commonwealth and State Civil Services, and we take this opportunity of expressing our gratitude to them for the full information which they have afforded and for the courtesy which they have shown to us. We have also had interviews with the several Public Service Commissioners and have made specific enquiries into the method of recruitment, promotion and control of the Civil Services; and we venture to give our opinions on this topic both because we consider that a capable Civil Service is an essential part of a well ordered system of administration in any country and because in Australia, with its multiplicity of Governments, the functions of a civil servant, although they may be circumscribed, are in some respects more difficult to perform than in countries where political pressure is less directly felt. This pressure is inevitably hard to resist by Governments responsible to a comparatively small population, and thus easily exposed to local influences.

2. The true function of the senior civil servant, as distinguished from the clerical or junior staff of every government department, is not only to provide the necessary administrative experience, but to act as a link in continuity of policy between successive Ministers and successive Governments, who in Australia, owing to her institution of triennial Parliaments, follow one another with exceptional rapidity. Government administration is a complicated and skilled business and if a Government wishes to obtain the services of efficient men in such a business it has, like any other employer, to pay the price for that efficiency which it would command in the ordinary commercial world. This is self-evident, but it is made additionally clear by the necessity which Governments have experienced of paying large salaries when they have needed to attract capable men of mature age from commercial or other activities, especially such as are required in connexion with technical subjects. The class of man necessary for Government administrative work has to be caught young and properly trained. In Australia there are many Cabinet Ministers controlling Government departments who, owing to their preliminary training, can, in effect, merely direct policy, leaving the expert to run the department efficiently, just as the chairman of directors of a business often requires a general manager to supervise its details.

3. We have been greatly struck by the capacity and devotion of the senior civil servants with whom we have been brought in contact, yet our enquiries lead us gravely to doubt whether the system followed in Australia sets out to attract the best available talent to the Civil Services. We do not think that the most advanced democratic theory can reasonably prompt any objection to a genuine attempt to introduce into the Civil Service a body of men selected from the outset to discharge the higher functions of the Service, as the Higher Division of the British Civil Service is, and qualified to do so by more substantial educational equipment than that possessed by those who enter under the present system. It is true that some encouragement is given to those men to widen the scope of their knowledge by attending evening and other classes at the Universities, but this practice does not produce the same effect as would the introduction of a "cadre" of men who have had the highest education in their youth,

and is uneconomic in that the start is not made with the best material available. Any such recruitment should, of course, be on an equal footing for all, that is to say, by open competitive examination, and we do not suggest that men should be appointed merely because they have a University or other qualification, except, of course, in the case of purely technical posts. Examinations should be open to men from the Mother Country and from other dominions, as those for the British Civil Service are now open to men from all the dominions not merely because by this means the men with the best qualifications might be obtained, but because any such system might conceivably lead to a freer interchange of thought and practice. These objects might also be attained by interchange for temporary service of Australian civil servants with those of the Mother Country and of the other Dominions.

4. We think that the efficiency of the Civil Service of Australia would be strengthened if the conditions of employment were uniform and officers were freely interchangeable between the Commonwealth and the various States. In any case we think that it would be to the advantage of the Commonwealth and of all the States that transfers should be freely made where positions of importance have to be filled in any of the Civil Services.

5. We consider it a serious anomaly that there should be a conflict of authorities governing the Services and the conditions of employment of officers, namely, the Public Service Commissioners and the Arbitration Courts. More than one body deals with the same questions, and a Court cannot possibly have that intimate knowledge of the affairs of the Service which is available to the Public Service Commissioners. The Australian Services are zealous and loyal, but the system is not well calculated to promote those qualities which, above all, should characterize a Service entrusted with the administration of Government business. We take the following extract from the annual report of the Commonwealth Public Service Board, 1925:—

"It is, however, anomalous that while the Public Service Board is vested with authority under the Public Service Act to enquire into methods of management of departments with a view to more economical working and to fix rates of payment in accordance with the ascertained relative value of the duties performed, awards may be made from time to time by the Public Service Arbitration Court varying the decisions of the Board. Under existing legislation two separate authorities are engaged without co-ordination on the same task of adjudicating on the remuneration of public servants.

"Duplication of authority in determining the conditions of employment of public servants is opposed to the public interest, and presents a problem in legislation which must sooner or later be faced. In the opinion of the Board the time has arrived when serious consideration should be given to the establishment of a proper co-ordination between the functions of the Public Service Board and those of the Public Service Arbitrator in the determination of salaries, wages, hours of duty and overtime."

APPENDIX.

REDEMPTION OF COMMONWEALTH DEBT.

COMMONWEALTH DEBT.

At 30th June the Commonwealth debt (*excluding* Loans raised for the States) was £372,000,000, located thus:—

| | £ |
|-----------------|-------------|
| Australia | 219,000,000 |
| London | 136,000,000 |
| New York | 17,000,000 |
| | <hr/> |
| | 372,000,000 |

NATIONAL DEBT SINKING FUND.

The present scheme for redemption of Commonwealth debt is governed by the National Debt Sinking Fund Act which came into operation in August, 1923.

The scheme provides for the following annual contributions from revenue to be paid to the sinking fund:—

- (i) 10s. per cent. on the total debt.
- (ii) A further contribution of £1 per cent. in respect of loan moneys expended on Post Office works.
- (iii) An annual payment of 5 per cent. on Debt redeemed from the foregoing contributions, so as to ensure the fund receiving the benefit of compound interest accumulations.

These contributions are designed to extinguish ordinary debt in 50 years and Post Office debt in 30 years.

The scheme also provides for further sums to be paid to the Fund and applied in redemption of debt. These include—

- (i) Half-profits of Commonwealth Bank; also 5 per cent. on debt redeemed out of these moneys.
- (ii) Reparation moneys (carried straight into Sinking Fund).
- (iii) Repayment of loan moneys in certain cases.
- (iv) Special contributions from surplus revenues.

CONTROL.

The transactions of the Sinking Fund are controlled by a Commission, consisting of the Commonwealth Treasurer, the Chief Justice, the Secretary to the Treasury, Solicitor-General and the Governor of the Commonwealth Bank.

APPLICATION OF FUNDS.

Broadly speaking, the moneys are applied towards redemption of Debt by—

- (a) Purchase on the market.
- (b) Redemption of securities on maturity.

For some years the funds have been mainly applied to redemption of "dead-weight" War Debt in Australia. At present, however, the annual programme provides for application of reasonable funds in London and New York as well as Australia.

DEBT DUE TO THE BRITISH GOVERNMENT.

In addition to redemptions of debt from the National Debt Sinking Fund, there is an annual repayment direct from Revenue to the British Government, being portion of a debt of £90,000,000 arising from the War.

SUMS MADE AVAILABLE FOR DEBT REDEMPTION.

During the last two years the following sums have been made available for the redemption of Commonwealth debt:—

| | 1926-27. £ | 1927-28. £ |
|--|---------------|---------------|
| Direct from Revenue to British Government | 1,293,035 | 1,357,399 |
| From Sinking Fund, Funds provided as follows:— | | |
| Contributions from Revenue .. | 2,017,391 | 2,278,695 |
| Half-profits of Commonwealth Bank | 226,280 | 320,563 |
| Reparation moneys | 1,340,573 | 651,779 |
| Interest on investments | 89,754 | 54,246 |
| | <hr/> | <hr/> |
| Total provided directly and indirectly from Revenue sources— | 4,967,033 | 4,662,682 |
| War Service Home Repayments .. | 831,561 | 787,897 |
| Other Sinking Fund Receipts .. | 29,390 | 18,857 |
| | <hr/> | <hr/> |
| Total | 5,827,984 | 5,469,436 |

The total provided directly and indirectly from revenue sources in these two years represented £1 7s. per cent. on the total debt in 1926-27 and £1 5s. per cent. in 1927-28.

SPECIAL CONTRIBUTIONS FROM SURPLUS REVENUES.

The following special contributions have been applied from surplus revenues for debt redemption:—

| | £ |
|---------------|-----------|
| 1923-24 | 5,000,000 |
| 1924-25 | 1,500,000 |
| 1925-26 | 1,000,000 |
| | <hr/> |
| | 7,500,000 |

COMPARISON OF DEBT NOW WITH DEBT SIX YEARS AGO.

The following table shows the change in the character of Commonwealth debt during the last six years (figures represent millions):—

| | 1922. £ | 1928. £ | Difference. £ |
|------------------|------------|------------|------------------|
| War Debt | 333 | 293 | —40 |
| Works, &c. | 32 | 79 | +47 |
| | <hr/> | <hr/> | <hr/> |
| Total | 365 | 372 | +7 |

Dead-weight War Debt was reduced by £40,000,000.

Works Debt was increased by £47,000,000. This includes £24,000,000 spent in Post Office Works; the balance being on account of Commonwealth Railways, War Service Homes, and other services almost wholly represented by tangible assets.

On a *per capita* basis the six years' comparison is—

| | 1922. £ s. d. | 1928. £ s. d. |
|------------------|------------------|------------------|
| War Debt | 60 9 0 | 47 1 3 |
| Works, &c. | 5 15 3 | 12 14 7 |
| | <hr/> | <hr/> |
| Total | 66 4 3 | 59 15 10 |

REDEMPTION OF STATE DEBTS.

GROSS DEBT.

On 30th June, 1928, the Gross Debt of the States was approximately £723,000,000 located thus:—

| | £ |
|-------------------|-------------|
| Australia | 332,000,000 |
| London | 360,000,000 |
| New York | 31,000,000 |
| | <hr/> |
| | 723,000,000 |

After allowing for Sinking Funds and other adjustments there remained a nett debt of about £700,000,000.

FINANCIAL AGREEMENT.

Under the Financial Agreement, which has yet to be validated by the new Commonwealth Parliament, the whole of the debts of the States will be taken over by the Commonwealth, and a new sinking fund scheme which has been in operation for a temporary period will become permanent.

SINKING FUND SCHEME.

The main provisions of the sinking fund schemes are:—

- (a) A sinking fund of 7s. 6d. per cent. per annum for 58 years on the nett debt at 1st July, 1927; to this sinking fund the Commonwealth contributes 2s. 6d. per cent. and the States 5s. per cent.
- (b) A sinking fund of 10s. per cent. per annum for 53 years on all new debt raised after 1st July, 1927; to this sinking fund the Commonwealth to contribute 5s. per cent. and the States 5s. per cent.
- (c) A contribution of $4\frac{1}{2}$ per cent. per annum on debt redeemed out of the above contributions (contributed by the States).

Contributions commenced from 1st July, 1927, in the case of all States except New South Wales, which State commenced on 1st July, 1928.

On the nett debt at 1st July, 1927, the annual contributions are:—

| | £ |
|---------------------------------|-----------|
| Payable by Commonwealth | 802,000 |
| Payable by States | 1,604,000 |
| | <hr/> |
| | 2,406,000 |

CONTROL.

The management of funds is in the hands of the Commonwealth National Debt Sinking Fund Commission.

APPLICATION OF FUNDS.

Broadly speaking, funds are being applied in Australia, London and New York:—

- (a) in meeting obligations under existing contracts;
- (b) in repurchases on the market;
- (c) in redemptions on maturity.

SUMS AVAILABLE FOR REDEMPTION.

The Financial Agreement was not ratified until August, 1928, but the sinking fund contributions were payable as from 1st July, 1927.

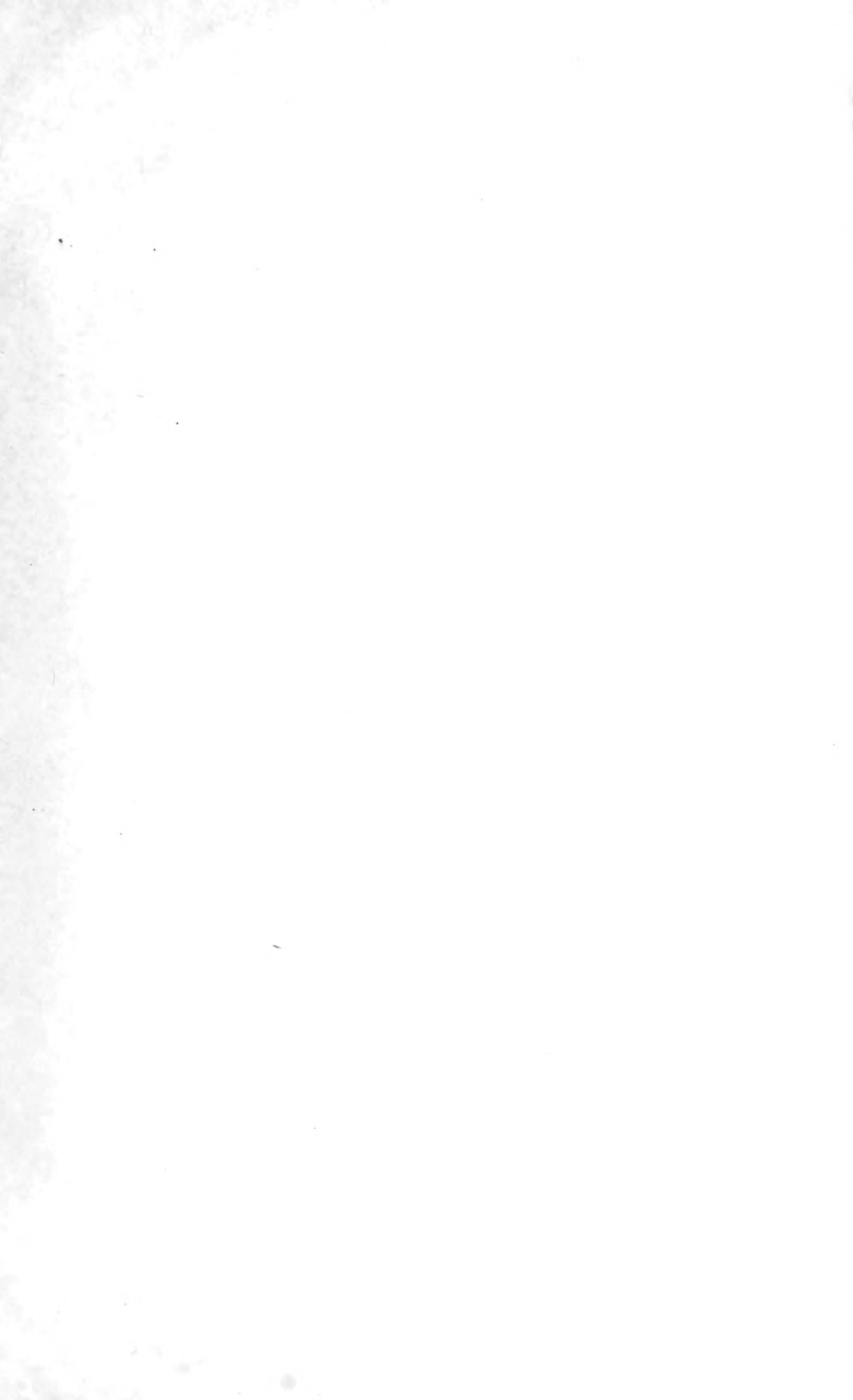
The amount available for redemption of debt during the current year is £4,503,000, including a balance of approximately £1,900,000 on account of contributions for 1927-28.

This sum will be applied in the following manner:—


| | £ |
|--|-----------|
| London— | |
| Purchase and redemption of State securities | 1,063,000 |
| Purchase of Commonwealth securities issued on behalf of the States | 166,000 |
| | <hr/> |
| | 1,229,000 |
| New York— | |
| Purchase of Commonwealth securities issued on behalf of the States | 121,000 |
| Australia— | |
| Repurchases and redemptions on maturity | 2,743,000 |
| Special payments under existing contracts | 410,000 |
| | <hr/> |
| | 4,503,000 |

REDEMPTION OF COMBINED OVERSEAS DEBT.

The total funds that are being applied this year in redemption of overseas debts (Commonwealth and State combined) amount to approximately £3,700,000—(Commonwealth £2,000,000, State £1,700,000).







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